

THE COMMITTEE ON INTERNATIONAL ECONOMIC POLICY

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THE CARNEGIE ENDOWMENT FOR INTERNATIONAL PEACE

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# IMPORTS— THE GAIN FROM TRADE

By

ROBERT L. GULICK, JR.

Introduction By

J. B. CONDLIFFE

1946

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March 20, 1946

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## Summary

### IMPORTS: THE GAIN FROM TRADE

*Can we increase American prosperity by expanding our purchases from other countries? This study shows how a greater flow of selected imports can contribute to more abundant living in the United States.*

*Imports are receipts. Our national wealth is the sum of what we produce and import minus what we export. Imports can promote the most efficient allocation of national human and material resources.*

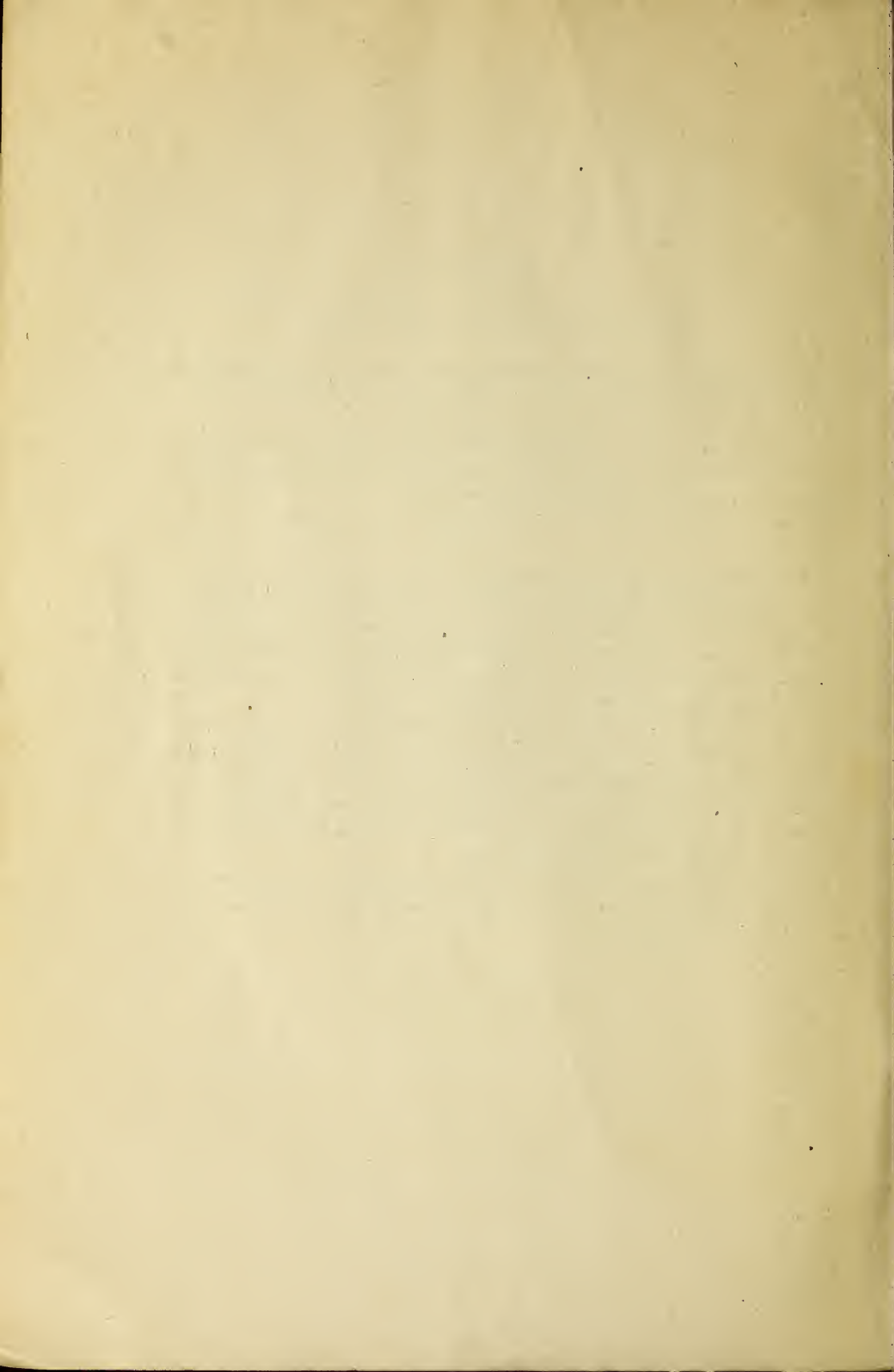
*Increased imports of oil, zinc, lead, and copper could safeguard our mineral reserves.*

*By shifting manpower, mechanical energy, and materials from less profitable industries into the manufacture of durable consumer goods and other articles in the production of which we hold a comparative advantage, more goods could be made available for both domestic and foreign consumption. Cheap hand labor cannot compete with modern machines and it is for this reason that we can undersell other nations paying lower wages.*

*But we cannot continue to export more merchandise than we import. About seventy per cent of the goods imported by the United States during the decade before the war were further fabricated in this country. There is a close relationship between import volume and domestic employment, a correlation pointing up the fact that American prosperity is the most essential prerequisite to our increased participation in the world market.*

*Suggestions are made, therefore, for the simplification of customs formalities, the reduction of trade barriers, and the expansion of facilities for the circulation of commercial information.*





## INTRODUCTION

The question to which this paper is addressed is the gain which would accrue to the United States from an expansion of her imports. It is not concerned with the gain which other countries may get from finding an export market in the United States. The prosperity of other countries is not unimportant either to them or to us; but it is the prosperity and welfare of the United States with which we are here concerned.

It may seem strange that there is any need to argue this question at all. Imports are receipts. They consist of goods and services, the produce of foreign labor and foreign resources, put at the disposal of American citizens in payment for other goods and services exported from the United States. We export because we can produce cheaply and sell at a profit. We receive imports in the form of goods and services which foreigners can produce in better quality, more cheaply, or more abundantly than we can. No private individual refuses to accept payment in this way. He uses his time and his resources to concentrate upon those things he can do best and accepts payment for his services in purchasing power which he can use to buy the goods and services he needs in the cheapest market. Why, therefore, should a national community of individuals hesitate to receive imports in payment for its exports?

National communities do hesitate. In most countries, in recent years, exports have been encouraged while imports have been regulated and restricted. Resistance to imports has sprung primarily from concern to safeguard national employment and national living standards. In the disturbed international conditions of the years following the Great Depression, this concern gave rise to a veritable fear of imports. The resistance to imports was intensified and barriers to their acceptance were multiplied. No country was willing to expose its workers or its individual capital to the destructive competition which followed the breakdown of the international monetary mechanism in the course of the Great Depression. The most destructive aspects of this competition, it must be said, were accentuated after the virtually complete abandonment of the international gold standard in 1931-33. The erratic, unequal, and often competitive, depreciation of national currencies which ensued was met by exchange control and import quota systems which proved vastly more effective than tariffs as a means of restricting imports.

There can be no real prospect of restoring international trade unless there is a reasonable expectation of political security and unless practical financial arrangements can be made for settling balances of payments between nations. Every trader wants to be paid promptly and in

his own currency. Once the political and economic conditions of international collaboration can be restored, however, the fear of violently disruptive imports should disappear.

Apart altogether from this abnormal situation, there is resistance in many quarters to imports, even under less disturbed conditions, and on grounds that deserve serious consideration. There are some who oppose expansion of imports on the ground that such expansion is unnecessary for the prosperity and welfare of the United States. Foreign trade, it is said, is not important to us. Our home market is so vast that prosperity depends upon keeping our people at work, earning American wages and living at American standards. If necessary, the protectionist argument runs, we should not hesitate to shut out imports rather than displace any American workers or force a cut in their wages by admitting cheaper imported goods into their home market.

It is, of course, true that the home market is in the aggregate vastly more important than foreign trade is to the American producer. But it is not true that the United States can dispense with imports. There are many important industries, affecting large areas of our country, and large numbers of our citizens, for which foreign markets are of more importance than the domestic market. We sold abroad 53.1 per cent of our refined copper in 1938; 52.6 per cent of our cotton in 1940, and 60.9 per cent of our gum rosin in 1929. Many similar examples could be cited where foreign sales are of substantial, and even dominating, importance for quite large industries. Nor is it possible to maintain the prosperity of the home market at its highest levels unless we trade abroad, importing as well as exporting. Indeed it can be demonstrated beyond all doubt that prosperity in the United States and high imports go together. The United States needs imports. When it is prosperous it needs large imports. When it is depressed it must go without much of what it needs from abroad. Indeed prosperity in some occupations and industries does not merely fluctuate with imports. It is generated by and depends upon them. Why do we need imports? The United States is a rich and fertile country. Within its borders are to be found a great wealth and variety of materials and soils. We enjoy possession of the greatest known deposits of the minerals most necessary to modern industry. Only the U.S.S.R. and, in far less degree, the western European industrial zone, can challenge comparison with the United States in this respect.

Blessed with such natural advantages, and with the spirit of enterprise, the American people have created an effective system of production, transport and marketing. Transcontinental railroads cut across the moun-



tain barriers to link the whole country into one great market in which trade is not only free but efficiently organized. There is no other area on earth which, at the present time, offers opportunities to economic enterprise on so vast a scale.

It is easy to understand that many Americans, viewing these great resources and the wealth that has already been created from them, feel little sense of dependence upon the outside world. Domestic markets are so large and natural resources are so abundant that the need to import from other lands does not seem great enough to be considered seriously. There is more interest in exporting; but the attitude taken by many Americans towards imports is strikingly like the reply given in 1783 by the Chinese Emperor Ch'ien Lung to the first commercial mission from Europe.<sup>1</sup> Of course it is true that the United States does not depend upon imports, as some countries do, for the very means of subsistence. But her people use about half of the raw materials that enter into world trade. The organized industrial interests have been powerful enough to keep the great bulk of these raw materials upon the free list in successive tariff acts. As is shown later, many other raw materials should be added to this list. There is growing awareness also of the fact that exports can be paid for only by imports. This is specially true in business circles, since many leading industries have now developed to the point where they must assure themselves of access to raw materials by direct investments to gain control of foreign sources of supply. Since they must, at the same time, gain wider markets abroad for their finished products, many leaders of business now stress the desirability, and even organize specific means, of admitting a larger volume of imports. Resistance to imports, however, is still very strongly organized. This is quite natural. Democratic government works by balancing the pressure of organized group interests. Every group of producers which fears import competition has a direct incentive to use all the political influence it can muster to protect itself. Such groups are compact and vocal. The threat to their interests, though often exaggerated, is very easily demonstrated. In a period when employment is the touchstone of public policy, the risk of throwing workers out of employment in local

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<sup>1</sup> "The stores of goods at the Celestial Court are plenteously abundant; there is nothing but what is possessed, so that there is really no need for the produce of outer barbarians in order to balance supply and demand. However, as the tea, silk, and porcelain produced by the Celestial Court are indispensable objects to the different states of Europe, and to thy Kingdom, for this reason we have in our grace and commiseration established the foreign hongts at Macao in order that all daily needs may be duly supplied, and everyone share in our superfluous riches." "From the Emperor of China to King George the Third," *Nineteenth Century* (July, 1896, p. 49).

industries is a telling argument. It is all the more telling because in the constitutional practice of the United States, local and sectional pressures upon congressmen are more immediately effective than the diffused general interest of the community as a whole. The damage that may possibly be suffered by a small but concentrated group of producers is more visible, and politically more effective, than the benefit, which may often be far greater in the aggregate, likely to be spread somewhat thinly over the whole body of consumers.

In fact, however, the numbers of workers now directly dependent upon the export industries—which, on the average pay wages strikingly higher than those paid in the protected industries—exceeds the number of those who work in industries whose employment is likely to be affected by a reduction in the tariff. Moreover, account must be taken of those employed in the process of importing, and of the secondary effect of liberating purchasing power by providing consumers with cheap imported goods. It does not require much reflection to show that a policy of full employment demands higher levels both of imports and of exports. More workers can be employed at better wages if the most efficient industries are free to develop to their fullest capacity.

The reverse argument is equally clear. If foreign countries lack the dollar-exchange to purchase American cotton at the ruling prices, the trend towards diversified farming will increase competition and lower prices for dairy products throughout the country. If the automobile industry loses its markets abroad because other countries cannot find the dollars to buy American cars, the workers in Detroit will have fewer dollars to spend on American-produced food and clothing.

We must accept imports in payment for the goods we want to export—agricultural exports such as cotton, tobacco, lard, dried and canned fruits, as well as an increasing variety of manufactured exports. If we want to export more, we must import more. How else can our foreign customers get dollar-exchange to buy our exports? As our agricultural and industrial efficiency constantly improves, our producers seek wider markets. The great exporting industries can undersell their foreign competitors; but they cannot provide their customers with dollar purchasing power unless imports are admitted into the United States in increasing volume.

At the present time the United States is the leading industrial nation, with a large excess of manufactured exports over manufactured imports. It is at the same time a great agricultural producer and exports of agricultural products remain important to great regions of the country. During the war many of these exports have been sent on lend-lease; but

lend-lease has stopped. If we are to continue exporting on a great scale, we must trade on a two-way basis, accepting larger imports. The most vital question which the United States faces today in its international economic policy is how to assist foreign countries to earn the dollars with which to buy our exports? X

During the war, and for some time after the war, military expenditures built up foreign dollar balances. As these expenditures taper off, there may well be a fairly considerable increase in tourist expenditures though a larger proportion will go to pay passages on American planes and ships and the total is in any case inadequate.<sup>2</sup> There will undoubtedly be an increase in philanthropic gifts but these do not loom large in the international accounts. Immigrant remittances, at one time a sizable sum, have steadily shrunk as the immigrants and their descendants have lost touch with their homelands.

An increase in foreign lending, to finance the restocking and provisioning of countries that have been stricken by war, will almost certainly develop to sustain American exports in the years immediately following the war. A rather considerable amount of foreign capital which sought refuge here before and during the war may be repatriated as political conditions become more settled abroad. This repatriation of funds, however, is not certain and cannot sustain exports for long. Foreign lending has already begun, but such lending bears interest and the interest charges and amortization of capital ultimately add to the necessity for accepting a greater volume of imports. It is, of course, desirable that the United States should do in the twentieth what Britain did in the nineteenth century and build up a growing amount of foreign investment, renewing and extending her holdings abroad; but this merely postpones a little longer the necessity for accepting ultimate payment in goods.

Therefore, while the expansion of export markets holds the center of popular attention at the present time, the question of repayment by imports cannot be long deferred. To provide employment in the period of reconversion every effort will be made to stimulate exports, but in the long run, and not too long a run, some answer must be given to the question of payment. This question is already agitating responsible authorities in our own and foreign countries. How can the people of the United States be persuaded to accept payment for the goods they wish to export and foreigners are eager to buy and pay for? Gold will of course

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<sup>2</sup> The peak of net expenditure for foreign travel by American tourists was estimated at \$638,000,000 in 1929. Total exports in that year were \$5,241,000,000 and total imports \$4,400,000,000, an excess of exports of \$841,000,000.



flow as long as the United States Treasury will buy it. Titles to ownership can be transferred to American capitalists. But there comes an end to such an accumulation of chips and if the United States is to continue to export, she must import.

This paper, however, is not addressed specifically to the question of imports as a means of paying for exports, important as that question is. After all, if imports cannot be increased, the choices open to our foreign debtors are limited. Once they have passed over all the gold they can lay their hands on, they must either cease to buy from us more than they can sell to us, or they must default on their debts to us by blocking the transfer of interest payments or by outright repudiation. If they get into the situation, as they clearly will and indeed have already done, where their obligations for past United States exports, plus their current demands, exceed the dollar balances they have been enabled to accumulate by selling goods and services to us, they must reduce either their debt payments or their purchases, or both. This is a matter of simple arithmetic.

More important, however, than this question of the external payments due to us, is the necessity of organizing our own economy on a stable and efficient basis. Largely this is a question of employment. Reconversion is a vast and difficult process of transferring workers to peacetime industries. It is not possible to maintain employment and purchasing power at their present levels if reconversion takes the form of reverting to the prewar pattern of agricultural and industrial production. Too much has happened in the war years to enable us to get back to what in any case was not a fully employed economy.

Mechanical invention is stimulated by war needs. There have been great advances in aviation, and in telecommunications, the creation of a vast mercantile marine and facilities for its operation, the construction of huge engineering and manufacturing plants, the development of new products and processes, and above all in scientific research and its applications. The United States is equipped to be the workshop of the world as no other country ever was. If this magnificent equipment and know-how is to be used, if it is to function for the home market at its maximum efficiency, it must operate on a scale to serve the markets of the world.

The world needs it. There is a vast demand for American products. But if foreigners are to buy them, they must have dollars. Otherwise we must give them away in one form or another and eventually production will break down in a great financial crisis.

This paper canvasses ways in which the United States can and should

encourage a greater volume of imports. It points out various directions in which imports can be increased with a minimum of dislocation to established interests with which they may compete. It is perhaps inevitable that some dislocation will occur, but a sense of proportion should be preserved in these matters. The main body of employment and of purchasing power cannot be sustained unless our agricultural and industrial plant is operating at a high level of efficiency, with large exports and large imports. The temporary and sectional losses that may be sustained in achieving this high level of operation should be weighed against the very grave risk of plunging the whole economy once again into prolonged and general depression.

J. B. CONDLIFFE



## CHAPTER I

### THE NEED FOR IMPORTS

Before the war, America produced a fourth of the global output of goods and services. During the war, her share increased by nearly fifty per cent and it now amounts to about half the world total of manufactured goods. Greatest increases have been registered in the war production field: merchant ships, aircraft, light metals (aluminum and magnesium), chemicals, machine tools, and synthetic rubber. Certain of these lines will decline in importance, but America may well account for a third of the world output during the next few years.

Industrialists, workers, and economists are centering their attention on ways and means of maintaining high-level postwar employment of both men and machines. Other countries will be in some need of machine tools, trucks, locomotives and railroad equipment, mining machinery, etc., and such demands may help our overexpanded industries in the necessarily complicated and difficult process of adjustment. But what will our aspiring customers use to buy these goods?

The answer is not hard to find and it is being repeated over and over again in studies of foreign trade. We must show an increased willingness to buy, as well as to sell. If trade is to continue, the acceptance of the goods and services of other peoples in exchange for our own is essential. By increasing the supply of dollars available to prospective buyers of American goods, imports contribute to domestic prosperity and full employment. It is true that the maintenance of high living standards and the most economic utilization of our own resources are prerequisites to import expansion. The level of domestic economic activity is the principal determinant of our import volume because two-thirds of the goods entering our ports are brought in for further fabrication. Without such imports, many industries would have to close down entirely or greatly restrict production. The National Planning Association is in agreement with all who have studied this question when it believes that "on the basis of past facts and future estimates, the United States economy cannot operate at full employment without a very considerable expansion of imports."<sup>1</sup> It goes on to explain that "imports are stressed in the analysis of merchandise trade because they are the bottleneck of American foreign trade."<sup>2</sup> Perhaps high-level employment could

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<sup>1</sup> National Planning Association, "America's New Opportunities in World Trade," Planning Pamphlets Nos. 37-38, pp. 33-4.

<sup>2</sup> *Ibid.*, p. 32.

be maintained without foreign trade, but living standards would suffer through the resulting decline in efficiency of production and distribution and the narrowed range of choice open to the consumer. Without imports, many products which are part and parcel of the American standard of living—e.g. radios, automobiles, and electrical appliances—at their present state of perfection would be unobtainable.

## CHAPTER II

### IMPORTS PAY FOR EXPORTS

#### *Balance of Payments*

The balance of international payments is a summation of all payments in and out of our national economy. The statistics may not always show a perfect balance because of inadequate data or different methods of computation, but obviously there must always be such a balance. If a nation sells more goods than it buys, the difference must be taken care of by purchasing gold or silver or by the receipt of I.O.U's. of one kind or another.

For a number of years the United States has sold more merchandise to foreigners than it has bought from them. During the period from 1935 to 1939, our sales exceeded our purchases by more than two and a half billion dollars. The business recession of 1937 was followed by a heavy decline in imports while sales to Japan largely prevented a corresponding slump in exports; the result was a net merchandise balance of exports in 1938 amounting to \$1,134 millions.

#### *Selling Abroad*

It is right and proper that America should be a leader in the export field because of her vast natural resources and her highly developed technical capacity or "know-how." Her production of automobiles, electrical appliances, and other durable consumer goods has long been nothing short of phenomenal. Every section of the United States produces quantities of specialties seeking world outlets. New England supplies textiles, fine machinery, and hardware. The Middle Atlantic states export electrical goods, munitions, manufactures of metal, and medicinals. The South has greater supplies of cotton and cotton cloth, tobacco, lumber, and rayon manufactures than can be consumed within the region. The Middle West efficiently produces an abundance of corn, pork, lard,

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<sup>1</sup> The United States Department of Commerce states that our export trade can exceed \$10,000,000,000 yearly with imports at \$6,000,000,000. Where will the extra \$4,000,000,000 come from? See *New York Times*, October 12, 1945, p. 32.

dairy products, automobiles and trucks. The West produces an ever-increasing variety of goods in tremendous volume including aircraft, petroleum products, motion pictures, citrus fruits, apples, dried and canned fruits and vegetables, and merchant vessels.

Before expressing fears about foreign competition, it would be useful for writers and speakers to compare exports and imports of given commodities. Textile manufacturers often have grave fears about foreign competition, most of them unjustified. Our exports of cotton, cotton sheets, pillowcases, towels, bath mats, and blankets far exceed our imports. The *Summary of Tariff Information* reported:<sup>2</sup> "The United States produces over 80 per cent of the pneumatic tires of the world. In automobile tire fabrics it has no competition from abroad, and exports large quantities in the form of piece goods and much larger quantities made up in automobile tire casings."

A sustained flow of exports benefits the American economy in a number of ways: 1) By providing markets for certain industries finding essential outlets abroad for their products, e.g., cotton, dried fruit, naval stores, carbon black, refined copper, industrial machinery, and agricultural machinery. 2) By giving American consumers the benefit of lower prices made possible through an increased scale of operations.

It is estimated that in 1937 there were 2,400,000 persons engaged in producing American agricultural and industrial goods for export not counting transport workers and others whose jobs were indirectly dependent on this commerce. Our stake in export trade can become still greater if we make it easy for other nations to sell us the things they can produce most efficiently, in return for taking the products of our farms and factories. The purpose of exporting merchandise is to secure desirable things in return. Professor Buchanan logically concludes that "From the point of view of the domestic economy exports are no better than pouring merchandise into the sea beyond the twelve mile limit unless imports are taken in exchange."<sup>3</sup>

In view of our large merchandise balance, how have we balanced our accounts with other countries? During the 1935-39 period, our imports of gold exceeded our exports by nearly ten billion dollars, a sum sufficiently high to offset our net exports of both goods and capital. Additional quantities of gold would constitute a poor substitute for the real wealth of goods and services. Factors of less importance are tourist expenditures and immigrant remittances. The former may assume con-

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<sup>2</sup> P. 1557.

<sup>3</sup> Norman S. Buchanan, *Foreign Investment and Domestic Welfare* (New York, Henry Holt and Company, 1945) p. 180.



siderable importance in the postwar period. Charitable and humanitarian contributions from American institutions and societies have not had a prominent place in the balance of payments for many years but they may increase somewhat during the next few years.

### *Shipping Needs Two-Way Freight*

The item of shipping is of significance in the military, political, and economic fields. The necessities of war have made the United States the greatest naval power in the world. From 1935 to 1939, we consistently paid more to other countries for shipping services than we received from them, the difference increasing from \$36,000,000 in 1935 to \$124,000,000 in 1939. Our spectacular shipbuilding program, however, has made the American Merchant Marine the mightiest in the world though a large part of our fleet may not be able to compete with the vessels of other nations. The Liberty ship may be sturdy and seaworthy but we have the testimony of Admiral Land that it is very slow and "not a competitive ship in the commercial sense of the word."

Considerations of security will probably dictate a large postwar merchant marine. Congress is likely to keep in mind the fact that our belated shipbuilding effort seriously hampered the prosecution of the war in 1942. It is true that there was strong sentiment for a powerful merchant fleet after the Armistice of 1918, but it was ineffective because economic disadvantages tended to outweigh political considerations. Perhaps we shall pursue a middle course this time, safeguarding our naval strength but without sending too much good money after bad by extravagantly subsidizing great numbers of vessels carrying foreign goods. An expanded world commerce would give more business to both foreign and domestic steamship companies but full benefit can be derived only if the ships haul merchandise both ways—imports as well as exports.

The recommendations on shipping and shipbuilding recently made public by a special congressional committee merit close scrutiny:<sup>4</sup>

"With the intention of fostering continued improvement and efficiency, the committee favors a legislative treatment of postwar shipping problems which embodies the following general principles:

- (1) The maintenance of an enlarged merchant marine under our flag is essential for our national security.
- (2) Operating and construction subsidies should be paid, as needed, for merchant vessels the operation of which is considered essential in the interest of

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<sup>4</sup> Sixth Report of the House Special Committee on Post-War Economic Policy and Planning, p. 5.

national security. The appropriations for such subsidies should be recognized as part of the cost of national defense.

(3) For shipping not considered essential for national security, the comparative costs of rendering transportation service should be the determining factor. No subsidies should be provided to such shipping.

(4) With the exception of a strategic reserve for defense purposes, vessels which cannot be sold either to American operators or to foreign countries should be scrapped. The expense of maintaining ships in sanctuary should likewise be considered a cost of national defense.

(5) The maintenance of a shipbuilding industry in times of peace is considered to be in the interest of national security. Its utilization for the continued technical improvement of our merchant marine should be encouraged through the cooperation of the armed forces, with subsidies to be paid to the extent necessary to maintain a needed nucleus of skill and capacity. The construction of types of vessels of which a deficiency still exists should be initiated as soon as possible.

(6) The reabsorption into other industries of workers at present engaged in ship construction must be an important aim of domestic employment policies. The development of private ship-scraping enterprises should be encouraged."

The foregoing analysis raises the larger issue of national security, a topic beyond the scope of this paper. It is generally assumed that this nation can best contribute to international law and order if she maintains a powerful fleet ready at all times to carry supplies wherever needed. The preservation of sea power may require subsidies for the speedier and more efficient merchant vessels. Subsidy warfare must be avoided. Security cannot exist for one nation alone. The building of a world organization of unchallengeable might in its sphere of operations demands first place on the agenda of every nation during this first year of the atomic era. National arrangements, whether economic or political, should be geared to the objectives and *modus operandi* of the United Nations Organization.

### *Development of the Tourist Trade*

Traveling in other countries has the same effect as importing merchandise in that it makes dollars available to foreigners. Undoubtedly, tourist expenditures of Americans in other parts of the world will regain their position as an important item in the international balance of payments. Americans, particularly those in the armed forces, have during this war gone in great numbers to every continent and this first-hand acquaintance will stimulate a desire to return to some of the more inviting regions. Conditions of travel will be more convenient and attractive than ever before. The Pan American highway will lure motorists south of the border; to the north Jasper Park and Lake Louise will beckon increasing numbers of visitors. For the owners of small planes and helicopters, the



sky will literally be the limit. Transoceanic travel by plane will make minimum demands on vacation time and on purses.

This is not to say that our own Sierra, Rocky Mountains, National Parks, and beaches will lose their charm or appeal. It is rather to be expected that the pent-up desire to travel on pleasure will result in more trips in every direction. Americans are freedom-loving people and they will resist efforts to dictate to them what places they should see. There is no reason to try to compel people to see America first or to attach stigma to foreign travel. It is good for international appreciation and understanding for different peoples to associate with one another. From an economic standpoint, there is no loss. The dollars spent come back to us in the form of orders for American merchandise of every description. If there is high-level employment in America after the war, we may reasonably expect the figures for tourist expenditures to climb considerably above prewar figures.

To encourage the intercourse made possible by modern transportation facilities, tourist literature should be placed on the free list in every country. Section 320 of the Tariff Act of 1930 provides that, with the advice and consent of the President, the Secretary of the Treasury and the Postmaster General may jointly on behalf of the United States enter into a reciprocal agreement providing for free entry in the respective countries of advertising matter, folders, booklets, cards, etc., designed to stimulate tourist travel. In view of the highly developed skill and efficiency of American chambers of commerce, there can be no doubt that our exports of such literature would exceed imports. In the field of air transportation also, it is very likely that payments received from foreigners will greatly exceed payments to them.

### CHAPTER III

#### WORLD-WIDE TRADE IS ESSENTIAL

We cannot forever sell more than we buy and prosper by it. If we are going to export more and sell more transportation service than we buy, it will be necessary for us to balance the payments by taking gold or silver, or goods and services, or by investing abroad. These metals, however, have little intrinsic worth; their acceptance is based on what they will buy in terms of goods and services.

The export balance presents particular difficulties in the case of our best customer, Britain, because the trade is so one-sided. In 1938, we exported \$548,000,000 worth of goods to the United Kingdom and Eire

but what we imported from them amounted to only \$120,000,000. Our position is certainly untenable in view of our position as a potentially mighty creditor nation. Special consideration should be given to the question of greatly increasing our imports from the United Kingdom. This is not to contend that our purchases from Britain must match our sales to her, but it is obvious that she can neither continue her purchases at the present level nor pay interest on loans unless she can secure more dollar exchange. In a paper prepared for the American Chamber of Commerce in London, Paul Bareau rightly concludes,<sup>1</sup> "To balance the British payments with the United States, multilateral trade must come to the rescue. The United States must buy more tea and jute from India, more rubber and tin from Malaya, more diamonds from South and West Africa. And Britain must, in its turn, export to those countries and acquire from them the dollars they earn in their trade with the United States."

Expanding trade is advocated as a means of bringing added prosperity to Americans. "Exchange of goods which can be produced efficiently abroad for goods we produce advantageously here can hasten the day when the American Standard of Living will be the living standard of all Americans."<sup>2</sup>

#### *Judicious Investment Can Promote Such Trade*

Opportunities for freeing and expanding international trade are particularly good at this time. Judicious international investment can insure the future buying power of consumers of American merchandise. The Committee on International Policy of the National Planning Association reports optimistically on the investment outlook: "By meeting the world capital need we can gain a temporary, but substantial, stimulus to domestic production and, in the end, profit from the greater stability and buying power which industrialization and the increase in economic efficiency will cause abroad."<sup>3</sup>

The elemental fact remains that only if we import can we invest our accumulated savings soundly, for only imports can pay, on a sustained and healthy basis, the carrying charges and the principal. Past methods employed by us have been the cutting down of imports, investment to support exports, refinancing of loans to prevent or postpone repudiation, suspension of interest payments, and partial or full repudiation of

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<sup>1</sup> Paul Bareau, "United States Tariff Reductions and British-American Trade," London: The American Chamber of Commerce, 1944, p. 10.

<sup>2</sup> National Planning Association, *op. cit.*, p. 14.

<sup>3</sup> National Planning Association, *op. cit.*, p. 7.

obligations. Buchanan rightly suggests that "foreign investment implies a disposition and a capacity to absorb imports at a later date."<sup>4</sup>

### *Time for Action*

In addition to the unusual investment opportunities in the foreign field, there are in early 1946 numerous factors favorable to immediate progress in the elimination of unnecessary trade barriers:

1. Fear of loss of employment has often been the motivating power behind the erection of tariff walls. Fear and desperation are seldom the forerunners of logical action. But as soon as the initial troubles of reconversion are overcome, there may be less involuntary unemployment than there has been for many years.

2. Reconversion needs tax domestic productive capacity to the limit; business cannot go on as usual in the export field.

3. Fear of a flood of cheap imports is dispelled by scarcity of goods offered by other countries, transportation difficulties, and by the danger of domestic inflation.

4. In many cases high-cost producers of consumer goods can profitably shift to postwar needs.

5. During the period of reconversion industries can be encouraged to shift to those lines of production which can contribute most to the national income by reason of the most advantageous utilization of human and material resources.

6. During the war, the tariff has not been the chief determinant of the volume or the composition of foreign trade.

7. Action now in regard to trading facilities would assist capital and labor to formulate plans for the future.

8. The outlook for the next few years is more likely to be boom rather than depression. The demand for articles not available during the war will be made effective because of accumulated savings in the form of war bonds, etc. Encouragement of economic enterprise would tend to prevent the boom from getting out of hand and to cushion the ensuing recession of buying.

9. As Professor Slichter has pointed out,<sup>5</sup> the rise of about 50 per cent in real income between the prewar and postwar periods gives America a great opportunity to increase her imports without seriously reducing the output of any home industry. If we fail to take advantage of this chance to improve the geographical division of labor, much capital and

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<sup>4</sup> Norman S. Buchanan, *loc. cit.*

<sup>5</sup> Sumner H. Slichter, "The American Tariff and World Trade," *Atlantic Monthly*, CLXXVI: 61-5 (December, 1945).



labor in the United States will be wasted by being diverted into expanding some of our less productive industries.

10. The domestic political atmosphere is favorable because many people have come to realize that protective tariffs not only cannot guarantee national security but that they actually serve as pretexts for aggression. The idea of economic self-sufficiency is on the run, thanks in large measures to the enlightened attitude of most American newspapers.

11. The war period was a time of dynamic cooperative effort. Now that the war is over, fatigue and apathy have set in and many countries face a dangerous recrudescence of narrow-minded, selfish nationalism.

## CHAPTER IV

### CHEAP RAW MATERIALS ARE NEEDED

Our reliance on foreign sources for raw materials is apparent in every step we take, whenever we drink a cup of coffee or tea, and every time we make a telephone call or ride in an automobile. Our concern about primary products for use in daily living is reflected by the inclusion in the Atlantic Charter of a declaration that the United States and the United Kingdom "will endeavor, with due respect for their existing obligations, to further the enjoyment by all states, great and small, victor or vanquished, of access, on equal terms, to the trade and to the raw materials of the world which are needed for their economic prosperity."

Among the imports which should be welcomed are the following:

1) Essential materials not commercially produced within the United States, such as rubber, silk, shellac, copal resins, hard fibers, carpet wools, coffee, tea, cocoa beans, vanilla beans, pepper, and such minerals as tin and nickel;<sup>1</sup>

2) Primary products not domestically produced in sufficient quantity to meet home needs or which can be produced more advantageously abroad: tungsten, chromite, manganese, asbestos, sugar, flaxseed, hides, skins, newsprint, crude oil, lumber, and iron ore;

3) Articles which can be produced abroad at less cost and in better quality: linen products, casein, cosmetic materials, etc.;

4) Luxury items: Persian rugs, British woolens and leather goods, French perfumes, and Chinese jades.

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<sup>1</sup> A substance or article quantitatively insignificant may have great qualitative importance. For instance, without imported jewels, watches lose their accuracy; mica splittings add to the safety of plane travel. Foreign trade may supply that missing horseshoe nail for want of which a kingdom was lost.

### *Natural Rubber*

In terms of value, our largest single import has normally been crude, natural rubber. In 1939, we imported 1,114,200,000 pounds valued at \$178,100,000. Now that the war is over, will natural rubber be driven out by the synthetic article? For a number of purposes, synthetic rubber has been found superior to the natural article and it will certainly be used to a much greater extent than during the prewar period.<sup>2</sup> Unless synthetic rubber becomes much cheaper and is considerably improved for use in automobile tires, however, the likelihood is that there will be a heavy demand for natural rubber. Over eighty per cent of the world's rubber consumption is absorbed in automobile tires and tubes and in miscellaneous mechanical rubber goods.<sup>3</sup> In 1946, one can hardly imagine American motorists choosing tires made from synthetic rubber in preference to those made from the natural material, let alone paying a premium of fifty per cent for them.

Before the war, ninety per cent of our rubber came from Malaya, the Netherlands, East Indies, and nearby regions. It does not seem likely that Brazil will regain the position in rubber production which she lost shortly before the outbreak of the First World War. In Brazil, there the rubber tree is indigenous, there are one or two trees to the acre and the tapper must cut his way through the jungle to get to them while in the Malayan area an acre supports a hundred trees, each bearing three times as much latex as the wild tree in the Amazon Basin.<sup>4</sup>

The source of our natural rubber supply will have an important bearing on the British balance of payments situation. Latin America during the war years accumulated huge gold and dollar reserves so that there will not be a shortage of dollars in the immediate postwar years. Imports from Malaya, on the other hand, will mean that Britain will receive sorely-needed dollars through the functioning of multilateral trade.

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<sup>2</sup> Buna S is superior to natural rubber in certain respects, e.g., resistance to oil and chemicals.

<sup>3</sup> K. E. Knorr, "Rubber After the War," p. 3 (Food Research Institute, Stanford University, 1944).

<sup>4</sup> The rubber development of the East Indies has resulted from the application of scientific management. These hevea plantations have probably not sustained serious injury because the trees are sturdy, do not burn, and the collapse came suddenly. The Far East also has the advantage of an established productive setup with a huge supply of labor while the Amazon is confronted with labor shortage and shift to other occupations and sections. Brazil does have the advantage of better soil and climate and relative proximity to principal markets. An army of tappers of wild trees cannot, however, compete with organized plantations. The mammoth Amazon Basin, two and a half million square miles in extent, constitutes perhaps the most gigantic area of unexploited natural resources in the world but Brazilian experts believe that the coastal region and the Minas Geraes will precede it in development.



The question is often raised as to whether we should profit from the cheap labor of other peoples. Americans have long evinced a desire to ameliorate the lot of humankind in other parts of the world but we must match our idealism with realism.

The plain fact is that the tariff is not a suitable device for social reform because its effects are almost wholly negative. By stipulating that only goods produced under desirable working conditions may enter the country, workers in other lands may lose their jobs and be much worse off than they were under prewar conditions. Refusing to buy cheap natural rubber from Malaya would not raise the wages of plantation workers; it would rather deprive them of their means of livelihood. The notion that one nation can use restrictive legislation to force social reform in another nation can prove very mischievous in practice.<sup>5</sup> The appropriate instruments for the improvement of living standards, the increase of productivity, and the betterment of the conditions of labor will no doubt be developed and perfected in the United Nations Economic and Social Council. Experience has shown that restrictive unilateral action is a poor substitute for concerted effort of the type pioneered by the International Labor Organization.

An unprecedented postwar demand for automobiles, increased rubberization of farm machinery, use of sponge rubber in upholstery, and a heavy backlog of demand for other rubber goods, will result in very heavy consumption of all types of rubber in the years ahead. Economists in the Department of Commerce estimate that our imports of crude rubber in 1950 will amount to about 900,000,000 pounds and will be valued at approximately \$160,000,000, or a trifle under 18 cents per pound. Knorr estimates that a price of less than eight cents per pound for natural rubber would make operations profitable on the more efficient estates even if wage rates were increased. In general, it would seem wise to retain only that portion of our synthetic rubber plant as may be justified on strategic and economic grounds. A tariff on crude rubber would be indefensible.

### *Cane Sugar*

Cane sugar ranks first in value among our imported foodstuffs. This is hardly news to Americans who during this war have become pain-

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<sup>5</sup> After 1834, when slavery was abolished in the British colonies, there was strong pressure from a combination of sentimental humanitarians and very practical men interested in West Indies sugar, to use preferential duties against the products of slave labor. This would have struck a heavy blow against United States cotton and tobacco, as well as French sugar, and British manufacturers were sensible enough and powerful enough to defeat the idea.

fully aware of our dependence on outside sources of supply. In 1938, continental United States supplied 32.3 per cent of the cane sugar consumed, domestic offshore areas 25.1 per cent, the Philippines 13.6 per cent, Cuba 26.9 per cent, and foreign countries other than Cuba 2.1 per cent. The rate of duty on 96 degree sugar may vary from .9 to 1.5 cents per pound, depending upon whether the quota has been exceeded.

The Filipinos have undergone a dreadful ordeal during this war and it is unthinkable that we should permit special interests to take advantage of their forthcoming independence by slapping tariffs on their cane sugar. Such an action would be harmful both to Philippine producers and to American consumers.

For years there has been a somewhat spasmodic production of beet sugar in the western states,<sup>6</sup> subsidized by higher prices to consumers for all sugar than would prevail if tariff rates were lower. The production of sugar beets in 1944, notwithstanding the heavy wartime demand for sugar, dropped a third under the 1935-39 average. This decline in output came despite an 82 per cent rise in the price of sugar beets. Beet production lost out in competition with beans and potatoes. One argument for protecting beet sugar interests has taken the line that in return for paying a higher price for domestic sugar in peacetime the consumer is assured of an adequate wartime supply. This type of reasoning can hardly convince a farm family limited to ten pounds of sugar for home canning last summer or to any one of us who has encountered difficulty finding chocolates and other sweets to send to friends and relatives in the armed forces overseas.

### *Silk*

Raw silk for a number of years occupied second place among our imports of crude materials. Economists in the Department of Commerce are inclined to predict that silk imports five years hence will be only about 40 per cent of the 1939 figure. Our chief supplier was the nation that brought us into the war, Japan.<sup>7</sup> Even before Pearl Harbor, imports of silk had declined considerably because of strong competition from other textiles. There may be considerable demand for women's silk hosiery after the war but it is apparent that silk will play second fiddle to nylon. Women like nylon for its appearance, long-life, and quick-drying property. Those who claim to be allergic to nylon, and many

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<sup>6</sup> Louisiana and Florida are high cost cane-producing areas as are also the Philippines. The regions that would benefit most from lower duties on sugar are Java and Cuba, particularly the latter because of proximity to the American market.

<sup>7</sup> Japan's silk production will be drastically curtailed with truck gardens supplanting mulberry trees.

now wearing rayon stockings, will go back to silk. A revival of silk production in China would probably result in greater silk consumption in the United States than could be expected otherwise. China will be hard-pressed to find sufficient exports to pay for her gigantic import needs—particularly capital goods—during these early years of reconstruction; silk could be an important source of dollar exchange. It would be better for China—and ultimately for us as well—if she would export silk to us in the form of wearing apparel and other manufactures and thereby add greatly to its dollar value.

### *Furs, Hides, Skins*

In 1941, undressed furs exceeded in value all other imports of crude materials with the exception of rubber. Postwar demand for furs will hinge on domestic purchasing power but we may well anticipate considerably expanded imports from the U.S.S.R. in exchange for capital goods, transport equipment, etc. To most American women, prosperity means sables. The value of imports will be higher if a larger share of them is fabricated in whole or in part. Iran and other countries will find trade more profitable when they develop skill in finishing their raw materials such as Persian lamb.

Of great importance among crude materials imported are hides and skins. In 1939, they were valued at \$47,100,000, and it is predicted that the volume will increase 50 per cent during the next five years. The reliance of the shoe industry on these imports is discussed elsewhere in this paper. During the war the dearth of leather imports was reflected in high-priced and inferior gloves and women's handbags.

### *Wool*

In 1940, more duty was collected from unmanufactured wool than from any other import with the exception of cane sugar. The wool interests have long been in the vanguard of the protectionists. The United States produces apparel wools from Merinos and crossbred sheep, 46s to 70s. There is no production of unimproved or true carpet wools in this country and very little wool coarser than 46s. Carpet wools are seldom finer than 40s. Australia produces wool similar to ours and supplies nearly half of the world exports of improved wools. Under the United States Tariff Act of 1913, wool was free; under the Act of 1922, a duty of 31 cents per pound of clean content (net usable wool) was placed on apparel wools, this in turn being raised to 34 cents under the Act of 1930. But in 1931 and 1932, the prices of domestic wools averaged 10 cents per pound below the duty-paid prices of foreign wools, a greater



average differential than obtained under the lower 1922 tariff. Clearly, a tariff rate does not guarantee a price level or give assurance of profitable production. The tariff does keep United States prices of wool above world market levels.<sup>8</sup>

Since the war started, our wool production has increased only 6 per cent, and that of lamb and mutton 12 per cent. Pork production has gone up 75 per cent and that of beef and veal more than a third. In other words, despite the fact that wool prices increased 79 per cent, lambs went up 63 per cent and sheep 55, farmers found it more profitable to raise other livestock during the war years.

Returning servicemen consume vast quantities of wool in the form of civilian suits and we may expect a general rise in the amount used by our people. Present stocks are fairly heavy but a fivefold increase in imports of apparel wool over the 1939 level may be anticipated within a few years. Imports of carpet wool may also be doubled. Special wools not domestically produced are coming into greater use in the manufacture of clothing. Among these wools are the hair of the camel, llama, alpaca, and vicuña. Increased association among nations will surely lead to greater interest in the products of one another. American business men may wear coats containing some camel wool from Saudi Arabia while cola drinks may make spectacular conquests in Asia. It is not the purpose of this paper to presume to state what any rate of duty should be but it is felt that greater attention should be paid to the welfare of American consumers. Lower duties on wool and woolen goods might mean better-clothed Americans. Between 1929 and 1937, the average ad valorem rate of duty on worsteds, woolens, and mohair fabrics rose from 70.5 to 86.9 per cent.<sup>9</sup>

### *Safeguarding our Mineral Reserves*

We have reached a point also where we must do a good deal of serious thinking about the effects of mineral imports on the future of America. What is the place of minerals in our national economy? Is there danger of exhausting our mineral resources?

A leading authority presents his opinion that "Without its mineral resources the United States would be restricted to an agricultural-type economy capable of supporting considerably less than the 135,000,000 people now living within its borders at a standard that is the envy of

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<sup>8</sup> See United States Tariff Commission, "Raw Wool," p. 17 (Washington: 1943).

<sup>9</sup> During the war, many substitutes for wool were developed. We are unable to predict the trend of consumer preference but this is one type of competition that our wool growers and manufacturers cannot escape by the tariff route.

the world. These same resources permit the 7 per cent of the world's population residing in the United States to do 40 per cent of the world's work."<sup>10</sup>

Exports of mineral products have exceeded United States imports every year so far this century. This is not to say that the United States is independent of the rest of the world in this field. Among the industrially important minerals not produced in the United States are long-fiber asbestos, industrial diamonds, tin, nickel, high-grade mica, natural nitrate, platinum, and quartz crystal. America is a net importer of antimony, chromite, crystalline-graphite, manganese, mercury, and tungsten. The rich iron ore deposits in the Mesabi Range are being depleted. Scientific discoveries constantly make new demands on the mineral resources of the world regardless of location. During this war we have had to add about thirty minerals to our imported commodities. A leading dictionary, printed in 1944, states that uranium "has no important uses"! The activities of scientists must not be circumscribed by political boundaries. Neither should the fruits of their labors be spoiled by tariff walls. One mineral that has recently assumed increased importance is tantalum which by reason of its high melting point is highly desirable for use in making electronic tubes for radar equipment.

The question concerning mineral reserves in the United States cannot be answered positively and precisely because it is impossible to predict what future discoveries may be made. The rate of exhaustion will depend on such variable factors as the introduction of substitute materials, improved refining techniques, methods of utilization, and income level.

### *Petroleum*

The per capita consumption of petroleum has increased from half a barrel at the start of this century to 12.1 barrels for the year 1944. The rate of consumption continues to rise though we may expect a sizable drop from the war peak at the close of hostilities. The continued expansion of civilian air travel, however, will result in increased use of gasoline as will the development of air express. Planes use much more oil per ton mile of goods carried than do ships or other means of transportation. We may also anticipate a strong demand for American petroleum manufactures from other countries as the number of automobiles and trucks used in other nations continues to get larger. During the first

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<sup>10</sup> Elmer W. Pehrson, Chief, Economics and Statistics Branch, Bureau of Mines, "The Mineral Position of the United States and the Outlook for the Future," an address delivered on February 19, 1945. The substance of this address appeared under the title "Our Mineral Resources and Security," *Foreign Affairs* XXIII No. 4: 644-57 (July, 1945).



nine months of 1940, our exports of motor fuel and lubricating oil exceeded \$130,000,000. At home, there has also been a greater use of diesel fuel in trucks and locomotives and busses have been replacing electric street cars for some years. These developments surely indicate a demand for petroleum far exceeding that of the prewar years.<sup>11</sup>

Our known reserves of petroleum would not be sufficient to meet even the minimum estimated demand twenty-five years hence. Pehrson states that our proved commercial reserves would last 18 years from 1944 if the average annual rate of consumption were to approximate that of the 1935-39 period.<sup>12</sup> Use of oil for heating and other purposes may be strongly influenced by price considerations. If we restrict imports of crude petroleum, prices will doubtless rise and the quantity used diminish. To forestall complete dependence on foreign sources for this strategic material, Congress has authorized the Bureau of Mines to set up demonstration plants for the production of synthetic liquid fuels. It might also be wise for us to set aside proved reserves of natural oil for possible future emergencies. At present, synthetic gasoline costs three times as much to produce as gasoline from natural oil and it would appear to be in the interest of national defense and of the American standard of living to increase our petroleum imports now without waiting for our domestic resources to fail. Economists in the Commerce Department therefore forecast imports of crude and semi-processed petroleum amounting to \$750,000,000 in 1950, a sum over 18 times as large as the 1939 figure.

These imports of oil will supply dollars to such countries as Iran and Iraq and thereby enable them to secure American capital goods and other commodities needed for economic development and social progress. The gain from this trade will be threefold. We shall conserve our reserve of an irreplaceable strategic material and in so doing enable others to buy more goods from us for the strengthening of their economies and in the long-run to become still better customers.

#### *Metals and Non-Metallic Minerals*

As of 1944, our commercial reserve of copper could be expected to last only 34 years at the 1935-39 annual rate of use. It would be possible to produce a million tons a year for ten years, after which the supply would decrease and the price go up. Unrefined copper is subject on

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<sup>11</sup> There is also a growing demand for chemicals derived from petroleum.

<sup>12</sup> But it probably would take fifty years to exploit these reserves. Our domestic supply would not meet our needs for even ten years unless augmented by discoveries and imports.

importation to an Internal Revenue tax of four cents per pound of copper content. It would be in our national interest to grant a concession to the chief supplying countries allowing a specified quantity to enter at a lower tax, in return for concessions on American exports.

Pehrson thinks that our zinc reserve may hold out for 19 years. The most important zinc-producing district has been seriously depleted, producing only half as large a tonnage in 1943 as in 1926. Home-builders and farmers will want substantial quantities of zinc after the war to make exposed metal surfaces rustproof and they will expect to pay reasonable prices. Conservation and the consumer interest make increased imports imperative. The duty of  $7/8$  cents per pound on zinc blocks and pigs should be reduced to facilitate an expected sevenfold increase in these imports during the next five years.

The lead situation is no brighter, with about a 12-year supply in store. Every lead-producing district yielded less ore in 1942 than in 1925. Here again we should reconsider our duty of  $1-1/16$  cents per pound of lead content on lead bars and prepare the way for a sevenfold increase in imports.

The United States would exhaust her reserve of chromite in one year if she imported none. Chromite ore is an important strategic material used in steels from which machines, tools, equipment, and appliances are made. It is used in stainless steel and also in steels requiring a sharp cutting edge at high temperatures. Chromic oxide is used in tanning and in electro-plating. Nearly a third of the production of bichromates is used in the chrome tanning of leather, for which purpose the use of low-grade domestic ore would be prohibitively costly. The major sources have been South Africa, Turkey, New Caledonia, India, and the Philippines. Britain largely controls the major producing areas, with the exception of the Philippines. The United States consumes about two-thirds of the world production and is thus vitally concerned with British trade policy. We admit chrome ore free of duty but the metal must pay a duty of 25 per cent. Some may contend that such a policy of discouraging imports of processed goods is tantamount to treating the producers of raw materials as colonies; undoubtedly, it tends to delay the industrialization of such regions and thereby delays economic development.

Manganese ore, which we are likely to take from Russia in greater quantities, bears a duty of  $1/2$  cent per pound of manganese content. The supply of manganese remaining in 1944 was equal to two years' consumption while that of tungsten was equal to four. After stating that duties on molybdenum and other ores are simply superfluous and can be justified only on the doctrinaire protectionist ground that it is natural

and normal for imports to pay duties, Berglund and Wright make the following comment about tungsten and manganese:<sup>13</sup>

"The duties on tungsten and manganese ores are as indefensible from any national standpoint as are the duties mentioned in the last paragraph, though for a precisely opposite reason. They are far too effective, but effective in such a way that the burdens far outweigh the benefits. They are duties on ultimate raw materials, and in order to be of service at all to domestic producers they had to be high enough to double or treble the price of the imported product. Even so they have had only moderate success in developing strong domestic industries . . . The enormous increase in price which they entail is transmitted as a handicap to manufacturers of ferro-manganese and ferro-tungsten and of manganese and tungsten steel, and ultimately, greatly augmented, to all final consumers of commodities made from these steels . . . It would be a wise policy to conserve the small supplies which we have in case a need for them should develop in the future."

We produce no nickel but we levy a duty of 25 per cent on nickel bars and of 2½ cents per pound on nickel pigs. We had only a nine years' supply of high-grade bauxite remaining in 1944, but imports of crude bauxite pay \$1 per ton while concentrates and refined bauxite are subject to a duty of a half cent per pound. Our scant reserve of asbestos is not threatened, thanks to a policy of supplementing the domestic supply with free imports of the crude material. Asbestos articles, however, are subject to a duty of 25 per cent. Imports of unmanufactured asbestos may total \$15,000,000 by 1950. Imports of diamonds, both for jewelry and for industrial uses, are expected to exceed \$100,000,000 a year by 1950. Heavy importation of tin will doubtless be resumed and housewives will no longer bother to flatten tin cans. Our seven-year supply of vanadium and our four-year antimony reserve should also be bolstered by increased imports.

### *Tariff Adjustment*

Pehrson advocates a program of gradual reduction of tariffs on minerals needed from foreign sources and he suggests that due regard be given the economic and social consequences in the mining areas. "My own view is that the removal of the tariff on those minerals of which we produce only a small part of our needs and the acquisition of emergency stock piles at normal prices will prove to be the most economical in the long run."<sup>14</sup>

The Tariff Commission estimates that if the duty on cement and related items were reduced by 50 per cent, imports in 1953 might rise 40

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<sup>13</sup> Abraham Berglund and Philip G. Wright, *The Tariff on Iron and Steel*, p. 204 (Washington: The Brookings Institution, 1929).

<sup>14</sup> *Ibid.*, p. 17.



or 50 per cent above the 1939 level, amounting to around two and three-quarter million barrels or slightly under two per cent of domestic production. The Commission concludes: "Probably no very substantial change in employment would take place because of a 50 per cent decrease in the duty." Governmental agencies should be encouraged to expose these trade barriers, both domestic and foreign, which penalize consumers without benefiting workers.

### *Fibers*

Prominent among the raw material imports are hard fibers.<sup>15</sup> In 1929, imports of hard fibers cordage totalled \$1,093,000 and the rate of duty was 6.1 per cent. The Act of 1930 raised the duty over 500 per cent, the new rate being 31.5 per cent, and imports fell to \$63,251 in 1932. Undoubtedly, the tariff had a very damaging effect on this import although it is possible that the depression may have been an even more serious cause of this startling drop.

Jute fiber is admitted free of duty but jute articles are dutiable as follows:

burlaps, not bleached, colored, etc., 1 cent per lb.; bagging, 6/10 cents per square yd.; sacks, not bleached, etc., 1 cent per lb. and 10 per cent.

This practice appears inconsistent. We prohibit importations of prison-made goods but we levy duties against imported articles competing with those made in the jute mill at San Quentin. Jute fiber has been kept on the free list through the efforts of farmers who want cheap sacks for grain, potatoes, etc.<sup>16</sup>

### *Feed for Livestock*

One raw material deserving of more than passing mention is feed imported by farmers for the production of animal products. The quantity imported has been growing by leaps and bounds, from five million bushels in 1939 and 18 million in 1943 to 224 during the first ten months of 1944. These imports did not lead to unemployment of the material or human resources of the United States but they did prevent greater inflation in grain prices. It may be instructive to point out that although we have never in any agreement reduced our 42 cent a bushel duty on wheat, Canada has reduced her duty on our wheat from 30 cents a bushel (1935) to 12 cents a bushel (1939).

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<sup>15</sup> The average annual imports of raw fibers other than jute during the 1935-39 period amounted to 351,844,000 lbs. in weight and \$16,997,000 in value.

<sup>16</sup> In 1939, the American cordage industry consumed 29,000,000 lbs. of jute valued at \$1,400,000.



## CHAPTER V

### IMPORTS FOR FURTHER FABRICATION

During the interwar years, the physical volume of imports closely followed the index of industrial production,<sup>1</sup> a phenomenon which is clearly attributable to the fact that 70 per cent of all imports, by value, consist of materials for further processing or fabrication. In representative years, finished consumer goods, other than foodstuffs, have comprised less than six per cent of total imports.

The makers of machinery need ores, metals, and minerals. The pharmaceutical industry requires extracted and essential oils. The food industry imports not only such edible vegetable products as oils, sugar, nuts, spices, etc., but also rubber, cork, burlap, fibres, silk, and tin for coverings, containers, and packing materials. In most cases, no satisfactory substitutes are available; either there are no substitutes at all or they are too expensive or inferior in quality.<sup>2</sup>

#### *The Drug Business*

Statistics show that American imports of crude and semi-manufactured drugs, herbs, leaves, roots, etc., amounted in 1939 to about \$11,700,000 but these figures cannot begin to show the pain and suffering alleviated or remedied by such imports. During the tariff readjustment hearings, Eli Lilly and Co., Parke and Davis, and other producers of chemicals, botanicals, and drugs asked that many raw materials be placed or retained on the free list. One firm argued, "If American pharmaceutical manufacturers are to compete successfully with foreign manufacturers, they must be at no disadvantage in the cost of the ingredients which enter into their products."

The figures on importations of drugs cannot show the quantity of pain relieved, the lives prolonged, the diseases checked, or the sleep and comfort directly traceable to use of medicine composed of the best ingredients. It is reported that the drug from night shade prescribed to check epileptic fits does not do so now that the supply is domestically produced. Agar-agar obtained from the seaweeds flourishing along the Japanese coasts was apparently superior to that which is now available.

Three centuries ago, Thomas Sydenham—the "English Hippocrates"—remarked that without opium he would not care to practice medicine. "Opium, when considered in association with the use of its isolated

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<sup>1</sup> Imports have not kept pace with the rise of national income, partly because of higher tariff rates and other trade restrictions.

<sup>2</sup> Some of the commodities imported for further fabrication, together with the names of the chief supplying countries and the current rates of duty, are listed in Appendix E.

alkaloids, is probably the most important drug known to mankind."<sup>3</sup> Most of the medicinal opium used in America is imported from Asia Minor, Iran, and India. It relieves pain and the sleeplessness caused by painful disease and is useful in respiratory illnesses. Belladonna (night shade) is cultivated in England and on the European continent. It is primarily a sedative useful in cases of asthma, colic, and whooping cough. Atropine, an alkaloid of belladonna, is used in ophthalmic practice to dilate the pupils. Henbane and stramonium are similar solanaceous drugs raised in Europe.

Since the seventeenth century, cinchona bark, from which quinine is derived, has been held in high regard as a medicine for the treatment of malaria. Cinchona is a tall, handsome evergreen tree indigenous to the 5000 to 7000 foot slopes of the Andes from Colombia to Bolivia, where it thrives in a warm, moist climate. First discovered in Peru, it has been successfully transplanted to Java.

Ergot is the resting stage of a parasitic fungus commonly found in rye and other cereals. Ergot is mainly used to promote the contraction of the uterus following childbirth and thereby stop the bleeding. The collection of ergot is a peasant industry involving much labor, the principal producing areas being Poland, Portugal, and Spain. It was not produced in the United States in peacetime and should not be dutiable.

Nux vomica, native of India, is a bitter drug of great value as a stimulating tonic. Strychnine, used as a tonic and in cases of cardiac failure, is derived from Nux vomica and from Ignatius beans, a Philippine plant.

Coca, cultivated in Peru and Bolivia since pre-Incan times, is used to produce cocaine which remains an important local anesthetic in dental and surgical work.

From Brazil's dark brown, slender Ipecacuanha tree is derived "a highly important drug, being at once an emetic, a diaphoretic, one of the most convenient of the known expectorants, and an excellent remedy for the treatment of amoebic dysentery."<sup>4</sup>

Ephedra, ephedrine being an alkaloidal salt, has been used by Chinese medical practitioners for about five thousand years. Ephedrine relaxes the bronchioles and thus brings quick relief to those suffering from the spasms of asthma. Its physiological action resembles that of adrenaline but it can be taken orally and its effects are more lasting.

As heart stimulants, there are no synthetic drugs capable of replacing digitalis from Europe, strophanthus from Africa, and squill from the Mediterranean countries.

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<sup>3</sup> Noel L. Allport, *The Chemistry and Pharmacy of Vegetable Drugs*, p. 14 (1944).

<sup>4</sup> *Ibid.*, pp. 70-1.

Other imported drugs are used as emulsifying agents, medicines for the treatment of skin diseases, purgatives, diuretics, carminatives, vermicides, and coloring agents.<sup>5</sup> It is clear that international trade contributes in many and varied ways to our health and well-being and it stands to reason that the advance of medical science in all parts of the world will result in an increased exchange of commodities known to possess therapeutic value. These imported plants and mineral substances bring business for chemists, manufacturers, makers of containers, transport workers, druggists, and others at home.

### *Forest Products*

After the war, we shall need to expand our imports of forest products from other countries. Robert P. Gerholz, president of the National Association of Home Builders, states that the construction industry will rehouse a fourth of the nation in the first decade of peace in "new, modern dwelling units constructed at the lowest possible cost." He estimates that such a program to satisfy the demand for a million dwellings a year would employ up to three million workers. In addition, we may anticipate a large and effective demand for materials needed in repairing and remodeling older houses. Shortages of materials and scarcity of labor have resulted in the postponement of painting, paperhanging, and other jobs due to receive prompt attention with the war over. Even the White House needed a few coats of paint. Government economists have estimated that imports of lumber will jump from the 1939 figure of \$20,100,000 to \$100,000,000 by 1950.

The ever-increasing demand of the American public for new books, magazines, newspapers, and other printed matter is expected to result in a doubling of our imports of wood pulp and newsprint.

### *Oil Seeds*

Assuming that V-J Day would have arrived by 1947, the Committee for Economic Development estimated that the production of oleomargarine would gain 177 per cent over the 1939 figure. In March, 1941, the price of oleomargarine was 14.5 cents per pound while it was held at 19 cents from 1943 to the present. But the Internal Revenue Tax on imported oleomargarine is kept at the absurdly high rate of 15 cents per pound in the face of domestic scarcity. Coconut oil, bearing a combined duty and tax of 7 cents per pound, is no longer available for use in making butter substitutes. Most of the coconut oil goes into soap and duties

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<sup>5</sup> Various oils, waxes, etc., do not loom large in statistical tables but they are nonetheless essential for flavoring and therapeutic qualities.



levied on it are taxes on cleanliness. Palm, babassu, and olive oil are also used in soap making. Palm and palm kernel oil, not produced in America, are subject to import levies totaling  $3\frac{1}{2}$  cents a pound. Sesame oil, used in salads and in cooking, comes off even worse with a  $4\frac{1}{2}$  cent a pound duty plus 3 cents per pound processing tax; it can be made in the United States only from imported seed which, in turn, takes a duty of 1.18 cents a pound.

Perilla oil comes from a plant which is indigenous to China, Japan, and northern India. It is used as a substitute for linseed oil in paints, varnishes, linoleum, and printing inks. Although not produced in America, it pays  $4\frac{1}{2}$  cents a pound duty. Linseed oil is dutiable, too, although domestic production invariably falls short of the demand. Castor oil, also dutiable, is used in paints, varnishes, and fatty acids. Tung oil is in the same category.

Rapeseed oil, dutiable at  $4\frac{1}{2}$  cents per pound, is used in lubricants and greases while inedible tallow and greases are transformed into soap and fatty acids.

Edible tallow is used in shortening. Soybean oil is in great demand for use in shortening, oleomargarine, and other edible products. In 1940, the rate of duty on soybean oil amounted to 76 per cent of the value. The quantity of soybean oil used in the manufacture of oleomargarine in 1944 exceeded 100,000 tons, almost equal to the amount of cottonseed oil used for the same purpose and representing an increase of nearly 300 per cent in three years. Soybean oil was on the free list in the 1913 tariff. The effect of the almost prohibitory duty under the 1930 Act was practically to destroy the American industry which refined Chinese soybean oil for export. China began selling directly to European refiners.<sup>6</sup> The vast wartime expansion of American soybean production might permanently alter the trade situation of this product.

### *Paint and Varnish*

The demand for casein is likely to increase considerably for it is one of the chief plastic materials and it is the main ingredient of some of the popular "one-coat" paints. The domestic manufacturers of coated papers tried in vain in 1929 to get casein restored to the free list. One chemist claimed that the Argentine product was superior: "These tests have proved that the Argentine casein is far more uniform than the domestic output, the latter being quite variable in solubility, strength, and above all in the fluidity which it imparts to a coating mixture."

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<sup>6</sup> See Philip G. Wright, *Trade and Trade Barriers in the Pacific*, p. 459. See Appendix H for information on American consumption of principal animal and vegetable oils.



Casein is also used to spray fruit trees and it is therefore in the interest of orchardists to permit free entry.

The National Planning Association uses casein as an example of the type of goods we should import.<sup>7</sup>

"Casein, for example, does not require the high standard of sanitation required for domestic fluid milk and cheese production. It is, therefore, advantageous to import casein, a low-cost product, from the less developed areas of the world and devote the domestic dairy industry to higher cost milk products."

In 1929, domestic casein sold for 14½ cents a pound. It takes 100 pounds of milk to produce three pounds of casein. The impartial *Summary of Tariff Information* concludes:<sup>8</sup>

"In the United States the most profitable outlets for skimmed milk are in the production of evaporated and condensed milk, and milk powder. In the corn belt skimmed milk is usually fed to hogs, consequently, the quantities of skimmed milk available from that area for the purpose of production of casein is limited. In Argentina casein is the only product made from skim milk.

"The quality of domestic casein is not uniform because of different methods of manufacture. Argentine and domestic casein are largely used by domestic coated paper manufacturers. For casein plastics, French casein is superior to domestic or Argentine casein."

Linseed oil is by no means the only imported article required by the paint industry. Ochres, umbers, siennas, and other iron oxides are essential coloring materials. France is the world's leading supplier of ochre, the cheapest common yellow pigment. The finest umber comes from Turkey and the sienna from Tuscany is the standard. These pigments take fairly low rates of duty, averaging from 10 to 20 per cent.

The wartime shortage of chromium available for use in the manufacture of pigments has created serious difficulties in the paint industry because "chrome pigments even when used in small quantities add a brightness to many colors that no substitute can approach."<sup>9</sup>

Tariff rates should be examined carefully to make sure that sections of the paint and varnish industry are not discriminated against and others given a competitive advantage. The duties on casein, pigments, oils, turpentine, and other components of paint should be reconsidered.

### *The Shoe Industry*

The shoe industry well illustrates our dependence on other nations for materials for further fabrication. That the quality of footwear has re-

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<sup>7</sup> National Planning Association, *op. cit.*, p. 38.

<sup>8</sup> Schedule 1, p. 107.

<sup>9</sup> *Journal of Commerce*, February 15, 1945, p. 9.

cently declined as a result of forced use of domestic materials of inferior quality is a matter of common observation.

In terms of numbers of workers, leather and tanning ranks tenth among American industries, a half million workers deriving all or the major portion of their income from the sale of shoes. Shoemaking is the leading occupation in hundreds of communities. It consumes a million tons of products furnished by other American industries. Over half of the most important raw materials used in making shoes must be imported and many of these essential items are subject to duty.

Although the United States has only slightly over six per cent of the world's population, we consume nearly 40 per cent of the world's shoe production, the average consumer buying about three pairs a year. Style is an important factor influencing demand and there are around 30,000 styles on the market. Our capacity is half again as great as our production.

Per capita annual shoe consumption exceeds one pair in only eleven countries. China, India and Russia account for about 46 per cent of the people of the world but they consume a mere five per cent of the global output of shoes. The potential market is vast but it is dependent on higher living standards abroad and a freeing of world trade from autarkic policies. American ingenuity will no doubt find a way to tap this latent market.<sup>10</sup> We may export shoe machinery as well as footwear. It is certain that one pair of shoes will not forever meet the annual demand of 9 Bolivians, 39 Russians, 60 Chinese, or of 87 inhabitants of British India.

A finished shoe comprises nearly a thousand products. Over 62 per cent of the hides and skins, over 70 per cent of the tannin required by leather tanners, and practically all of the waxes, resins, gums, and other finishing materials must be imported.

Domestic supplies of cattle hides, calf and kip skins, horse hides, sheep and lambskins are inadequate to maintain normal production. Only about 12 per cent of a cow hide yields the best grade leather. Unless we wish to use inferior materials, we must import. We rely completely on foreign sources for our supplies of goat and kidskins, buffalo hides, and reptile skins. Goat and kidskins are the principal materials used in making leather uppers. French calf and kip hides are desirable for fancy leather uppers. Cattle, buffalo, kid and calf skins were free under the Tariff Act of 1922, dutiable at 10 per cent under the Act of 1930 and at 5 per cent under the Argentine Agreement. Imports of calf and kip

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<sup>10</sup> In 1939, our shoe exports amounted to \$895,000 and our imports \$453,000.

skins declined from \$16,000,000 in 1929 to an average of \$4,226,000 in 1936, in part by reason of their removal from the free list.<sup>11</sup>

### *Tanning Materials*

Vegetable tanning materials are highly important to the shoe industry. The only natural vegetable tanning materials produced exclusively at home are chestnut, hemlock, spruce, and oak bark extracts. The entire supply of quebracho, myrobalans, mangrove, valonia, wattle, gambier, and dividivi is imported, the duties in most cases ranging from 7½ to 15 per cent.

The tanners are naturally anxious to keep all tanning materials on the free list. One of the important finishing materials on the free list is carnauba wax. Brazil is the sole source of this wax. In 1939, 50 per cent of the wax was used for floor and automobile polish, 28 per cent for leather dressing and shoe polish, and 17 per cent in paper-making.<sup>12</sup> It is also used to protect power lines and is employed in electrical appliances, printing ink, insecticides, explosives, cosmetics, and pharmaceuticals. Hat feathers are dipped in carnauba wax to improve their appearance, preserve them, and keep the moths away.

We are also dependent on imports for some 20,000 tons of bichromates consumed annually in the chrome tanning of goat, kid, calf, sheep, and kip skins. Dyeing materials largely imported include aniline dyes, pigments, titanium oxide, cutch, logwood, and fustic extracts. Ad valorem equivalents of the specific duties on red and blue pigments run from 25 to 38 per cent. Imported chemicals include hydrated lime and fluorides. Oils and greases imported to some extent include castor, neatsfoot, cod, sperm, olive, menhaden, and degreas. The duty on wool grease—indispensable in stuffing sole leather—exceeds one hundred per cent!

Finishing materials entirely imported include shellac, carnauba and other waxes and finishes, and pumice; partly imported are various resins, egg yolk, and albumen. Shellac is essential in finishing shoes and there is no satisfactory substitute for carnauba wax. Egg yolk and albumen are dutiable at 27 cents per pound or about 150 per cent. Cork, rubber, and sisal rope in their natural form are entirely imported. China clay is used to give the leather added fullness and mellowness. Rubber is increasingly used in soles and heels. "Finishing of leather falls in the category of art, and only one skilled in the art of finishing can obtain the

<sup>11</sup> "The removal of hides and skins from the free list by the Tariff Act of 1930 was at least partly responsible for the failure of imports of these items to regain their predepression level," United States Department of Commerce, *The United States in the World Economy*, p. 49.

<sup>12</sup> Very important in the manufacture of carbon paper.



desired result. It may require months or years to obtain a final result that will be acceptable to the trade."<sup>13</sup>

To sum up, we are indebted to imports for the appearance, flexibility, strength, service and durability, moisture-resistant quality, and comfort of our shoes. Analysis of other industries would bring to light dependence in other fields but this one example will suffice.

### *Leather Handbags*

Also in the leather goods field is the production of handbags. The calf-skin used in making distinctive women's handbags must come from calves two to three weeks old. The domestic supply of this age group is limited, the result being that half of our supply is imported. "When fashion decrees that handbags should be made of reptiles, such as snakes, lizards or alligators (crocodiles, which can be distinguished by their long snouts, are preferred as they are wider through the middle and thus supply more usable skin), the natives in far off Borneo and Formosa and the South Sea Islands must engage in the dangerous occupation of killing pythons, cobras, and other reptiles so that their skins can be made into leathers that women love to admire (or have other people admire) in their handbags. On the banks of the Amazon natives must trap and kill treacherous man-eating alligators . . . Hunters in the Arctic regions must engage in the hazardous occupation of catching seals as they drift down on the ice floes."<sup>14</sup>

## CHAPTER VI

### THE AMERICAN STANDARD OF LIVING

Some of these remarks about the nature of trade may sound like platitudes to many readers but it must not be taken for granted that fallacious notions on the subject have been driven from the field. Only last year, a speaker asserted in an address before the Nebraska Reclamation Association that "If in trading you give and receive equal value you will acquire a different product but do not make a profit."<sup>1</sup> This is equivalent to saying that a farmer who sells corn and with the proceeds builds a home and sends his sons and daughters to college does not really make a profit. Such economic analysis is either meaningless or misleading.<sup>2</sup> As

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<sup>13</sup> *Hide and Leather and Shoe Encyclopedia*, p. 430.

<sup>14</sup> *The Leather Goods Manual*, p. 108

<sup>1</sup> Address by Carl H. Wilken, January 19, 1945.

<sup>2</sup> The same speaker advocated bringing into agricultural production four million new acres per year after the war. The misfortune that such added competition would bring farm people everywhere is left to the reader to imagine.



to this question of the gain from trade, we discover that Daniel Webster provided an answer a century ago: "Commerce is not a gambling among nations for a stake, to be won by some and lost by others. It has not the tendency necessarily to impoverish one of the parties to it, while it enriches the other; all parties gain, all parties make profits, all parties grow rich, by the operations of just and liberal commerce."

A nation's income consists of the articles produced inside its borders minus what it exports and plus what it receives from other lands. It is silly to regard trade as a game in which one party loses and the other wins. The goal of economic self-sufficiency, whether individual or national, is a will o' the wisp. Those who sing the praises of the independent life in the country are usually those gentlemen farmers who never really had to derive their living from the soil. It is no easy matter for the average ruralist anywhere to produce his own food, make his own clothing, and still manage to sell enough produce to secure the wherewithal to purchase the many things that enrich life but which he cannot make for himself. The argument that our grandparents got along well enough without showers and radios is, after all, a plea to push the clock back to an age of lower living standards.

A basic assumption of this paper is that the most important requirement in rebuilding world trade is a high level of employment and income in the United States. Our prosperity will be increased as we take steps to help other peoples work out their own economic salvation. There are many ways in which we can contribute to the welfare of other lands—by lending technical assistance or "know-how," by exporting trucks, locomotives, and capital goods, and by investing cautiously and sagaciously. In order to be repaid for this technical, material, and financial assistance, it will be essential to multiply our imports.

How can we greatly increase our imports without hurting home industries? The solution lies in selective rather than in indiscriminate expansion of the volume of goods from abroad. The more that can be secured from the expenditure of a given amount of energy, the greater is the efficiency and the higher is the reward.

Arguments to the effect that there would be more work if no hand-made articles were brought into the country overlook the fact that work is not an end in itself but merely a means of acquiring things to satisfy human wants. There is no road back to the replacement of machines by manual toil. It would require the enslavement of several times the present world population to do the work now done for us by steam and electricity.

The argument that we cannot compete with the cheap labor of other

lands has been proven false in practice. The fact that we sell much more to other nations than we buy from them should be sufficient evidence against this theory which economists exploded long ago. Other nations with lower wage rates erect tariff and other trade barriers to protect their workers against low American wage costs per unit. High wages are a product of high efficiency. It has been estimated that in the 'thirties the output of the American industrial worker was three times as great as that of the British or German worker. The labor cost per unit of output may be very low despite a high wage rate per hour. American tourists are often surprised to find that tires in Canada cost more than in the United States although our tire manufacturers pay their workers higher wages.

It must not be assumed that technically advanced countries with lower wages can always undersell us even in lines of goods in the production of which they specialize. Germany was noted for her highly developed and efficient chemical industry. Could she always undersell us? This is not a question of theory but one of fact. The *Summary of Tariff Information* states that in 1928, the German export price of carbon tetrachloride ranged from 8.80 to 8.93 cents per pound. The price of the American product in New York in the same year varied from 6.25 to 6.75 cents per pound.

### *Agricultural Imports*

Statistics can be misleading when the breakdown is not sufficiently detailed to make exact identification possible. This is particularly true in the case of imported foodstuffs. The average citizen expresses amazement when told that we normally import vegetables and meats from China. Generally speaking, however, such imported foodstuffs are not similar to home-grown products as anyone who has eaten at a Chinese restaurant can testify.

Let us consider agricultural imports from the standpoint of the American standard of living. Do imports enrich our dinner pails and banquet tables?

Methods of processing often make a difference in the final product. For example, European olive oil is cured two or three years; California oil is usually cured only one year and as a result is more bitter. Scotch whisky and bourbon appeal to different tastes. Earl Wilson, "Saloon Editor" of the *New York Post*, claims that Scotch and water leaves no hangover. Mexican beer has its devotees. Nuts include the Brazil, pistachio, and cashew, none of them produced in America and none competing with the peanut, for example, on a price basis. We also import many tropical food products which add to the joy of living. In the

future, we may expand the list to include cherimoyas, sweet lemons, and other delectable but little known exotic fruits and vegetables.

A poultry producer would naturally be inclined to think that imports of dried eggs would endanger the price of domestic fresh eggs. There is no evidence that such imports have ever significantly influenced domestic egg prices but there is evidence that egg-drying is of dubious profitability for home producers. The *Summary of Tariff Information* states:<sup>3</sup>

"The high cost of raw material in the United States, and the relatively large investment necessary to install and equip egg-drying plants in this country, as compared with the small investment required for egg freezing, has made domestic egg drying impracticable."

Some farmers will argue that imported agricultural commodities are impure. Actually, all imports of foodstuffs are subject to inspection. If egg powder, for example, is of doubtful purity the remedy lies in rigid inspection rather than in higher rates of duty and indiscriminate exclusion. Pure food regulations in all countries should apply with equal force to domestic and foreign products.

Dried egg yolks, mainly from China, have been used principally in prepared flours and "mixes." So long as standards of purity are rigidly enforced, the addition of dried eggs to biscuit mixtures, etc., is defensible on nutritional grounds. It should be more profitable for the American poultry producer to concentrate on the marketing of eggs in the shell with the cracked ones going into confections and baking goods. Some candy makers made advertising capital out of the fact that they use fresh eggs.

Our government has granted concessions on agricultural products marketed in seasons of limited domestic production. Among these products are (season of reduced rate shown in parenthesis) green lima beans (December 1st to May 31st), tomatoes—natural state (December 1st to February 1st), green peppers (January 1st to April 30th), fresh eggplants and fresh cucumbers (December 1st to the end of February). There is some winter production of these vegetables in Florida but the lowering of duties has not had a decisive influence on prices which have actually risen since the agreements have been in effect. Factors influencing price can rarely if ever be absolutely reduced to the single one of import duty rate and a good deal of discussion about the effect of a rate of duty or of exchange rests on rather shaky foundations.

A few more cases of dissimilarity between domestic and imported products may be cited. Anchovies caught in the Mediterranean and Norwegian sardines are very different from the pilchards caught in

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<sup>3</sup> P. 1081.



Monterey Bay. Much ado is made over cheese imports. About 75 per cent of the cheese imported from Italy is made from sheep's milk, a commodity not commercially produced in the United States. Pecorino romano is made entirely from sheep's milk. To make 20 pounds of pecorino cheese requires taking the milk from 200 sheep morning and evening. Who could imagine an American farmer going to all of this bother and in addition curing the cheese a year before marketing it? Parmesan requires two to four years for ripening and does not compete on a price basis. Provolone is similar, requiring considerable working of the curd. Gorgonzola, a soft cheese, is specially cured in natural caves near Lecco, Italy, and identical cheese cannot be produced elsewhere. Bel Paese is a creamy cheese from the Italian Alps. Some Americans claim that domestic Swiss cheese is just as good as the imported article. That is a matter that each consumer is entitled to decide for himself. The fact is that from 1921 to 1926, Americans paid a premium of 7 to 14 cents per pound for the imported Swiss.

#### *Some Tariffs Should Be Retained*

Protective tariffs should be retained not on general principles but only for good and sufficient reason.<sup>4</sup> It is common protectionist practice to inveigh against those who propose tariff adjustment downward as free traders. Actually, there does not exist in America a strong free trade movement. The free trade menace is a scarecrow set up to frighten domestic producers.

One criterion for the retention of a high tariff would be definite proof that importations would damage reasonably efficient domestic industries and cause considerable unemployment. For example, Japanese cotton cloth can far undersell our home product and a good case can be made for some protection of our cotton textiles against such competition. The imported merchandise should be comparable to and competitive with domestic goods, the similarity extending to material, quality, texture, and use; commercial interchangeability would not be required but it would often be useful to apply standards similar to those employed by a commercial buyer. In general, new synthetic articles should not be protected against competition from natural products. Some German synthetic textiles cost more to produce than cotton. Economically and morally, there would be no difference between action by Germans placing high tariffs on cotton and American action placing natural rubber

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<sup>4</sup> Senator Pine once justified general protectionism in these eloquent but inapplicable words, "The Government can not deny the equal protection of the law to any of its citizens." (Senate Finance Committee, XVI: 361).



on the dutiable list. While it is true that a high tariff on coffee might increase the sale of coffee substitutes and thereby benefit American wheat growers, it is safe to say that American consumers, wheat growers included, would not tolerate such interference with matters of food and drink.

All considerations revolve around the question of maximum employment and income on the domestic front. Unfortunately, it is not possible to measure the effect of removing a tariff duty on employment and income. It is not difficult, however, to ascertain the number of workers in an industry seeking protection and to note whether the wages paid are above or below the average paid by the nation's export industries. The less efficient domestic production should not be artificially stimulated by trade barriers. If the infant industries are to grow up, they cannot be permanently swaddled in protective tariffs. The efficient enterprises in which we enjoy a comparative advantage seldom need or seek "protection." For example, the automobile manufacturers did not present a brief for the retention of the ten per cent duty on motor cars in the Tariff Act of 1930. In general, our advantage lies in the capital goods and durable consumer goods industries but our position is also favorable in the field of fabricated foodstuffs. Sound foreign trade should increase long-run domestic economic welfare and promote international good will.

Protection is chiefly needed against imports of competitive merchandise from those factories which utilize modern techniques of mass production and whose costs are further lowered by the employment of labor at exceedingly low wage levels. In this category would be imports of cheap cotton textiles from Japan's highly efficient looms. Until the countries concerned or some international body can succeed in raising living standards in the depressed areas, some tariff protection must be afforded the comparatively few, but important, American industries that would otherwise be adversely affected.

Attention must also be given the prospect of frictional unemployment. The shutdown of a factory is not merely a loss to an individual owner for very often the enterprise may be the chief source of livelihood for a community. The powers of government should be used chiefly not to restrain and control industry but rather to stimulate initiative and enhance opportunities for greater utilization of the capital, resources, and manpower of the nation. If lower rates on imported cane sugar, for example, result in idle refineries and unemployed beet field workers, it would be only equitable for the government to ease the transfer of labor and capital to more efficient lines of production.<sup>5</sup> Naturally, such

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<sup>5</sup> "Just before the war the average annual earnings for the 25,000 beet workers in

major questions of public employment policy cannot be treated in this study. Consideration should also be given, in special cases, to the possibility of compensation to the displaced industry.

## CHAPTER VII

### THE RED TAPE LABYRINTH

Americans cherish freedom of action and expression as their most precious national possession. They have a wholesome disrespect for red tape and a desire to get things done. They place more trust in individual initiative than in bureaucratic regimentation, and for good reason. The encouragement of resourcefulness has paid good dividends not only in business but also on the field of battle. It is true that curbs are necessary to insure discipline in military undertakings, to prevent the abuse of monopolistic position in business, and to safeguard public health, but even these restrictions lead to greater opportunities for personal achievement.

Comparatively few people come into contact with the intricacies of customs administration and the result is that there is no popular clamor against the type of indirect protection which Percy Bidwell has aptly labeled the "invisible tariff." It is a pity more people do not realize how difficult it is to cut a way through these unnecessary and vexatious formalities. The way of the importer is far from easy. In addition to such unpreventable disadvantages as delay in filling orders, transportation problems, and unpredictable consumer preferences in style, the dealer in imports has to face puzzling customs formalities. Customs administration should be streamlined to serve the needs of the twentieth century.

The United States has made some progress toward simplifying domestic customs regulations, but there is still room for much more to be done. In addition to the tariff, the numerous Trade Agreements, the Customs Regulations, and the many thousands of court decisions concerning customs matters, there are more than ninety special acts affecting imports.<sup>1</sup> Some of these laws prohibit entry of convict or prison-made goods; others are concerned with the conservation of wild life and they keep out the feathers of certain birds; owners and licensees of

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Colorado were \$568 per family. Out of that they usually paid their transportation to and from their homes. In a normal year, many of them are so far in debt at the end of the beet season that they can't get back, and gravitate to the slums of Denver to await the next season."—Wallace Stegner, *One Nation*, p. 96. It is obvious that the sugar tariff failed to ensure decent living standards for the Mexican beet field workers.

<sup>1</sup> *Custom House Guide*, 1944, pp. 515-17.

copyrights and trade marks are protected against infringements; the Federal Food, Drug and Cosmetic Act safeguards the health of the American consumer and a separate act specifies standards for tea. The Tariff Act contains many special provisions governing the marking of merchandise to indicate its country of origin, preventing the admission of immoral articles, obscene matter, contraceptives, lottery tickets, and treasonable publications, and denying entry to the products of forced labor. Many of these provisions are defensible both in their purpose and in the way they are carried out, but others have tended to exceed the bounds of common sense. The marking regulations have sometimes fallen within the latter category, a case in point being the requirement that cigarette papers be marked individually to show country of origin.<sup>2</sup>

### *Biological Protection*

The subject of biological veterinary protection is always a center of controversy. The United States prohibits imports of cattle, sheep, swine, and of fresh, chilled, or frozen beef, veal, mutton, lamb or pork from foreign countries in which the Secretary of Agriculture has determined that rinderpest or foot-and-mouth disease exists. Latin Americans feel that it is unreasonable to keep out lambs from Patagonia on the ground that rinderpest may exist in another part of Argentina from which it is separated by mountains, deserts, and the sea. Countrywide embargoes are mandatory under the present law although limitation to the infected area was possible under the Tariff Act of 1922.

There are also numerous restrictions on imports of plant material, some of which would be hard to justify on purely sanitary grounds.

### *State Restrictions*

By Federal Act of March 3, 1933, the buy-American policy was inaugurated in government purchasing and this constitutes a further barrier against imported merchandise. Reasons of political expediency have dictated the adoption by individual states of similar measures which also effect international commerce. By 1934, 29 states and four territories had embarked on a policy of preference for state and territorial products in public purchases. Alabama, Colorado, New York, North Carolina, Tennessee, Virginia, and South Carolina have tax laws which discriminate against foreign corporations. A New York State law of May 19, 1937, restricts the privilege of shipping milk or cream into New York "from any other state, territory or foreign country" to holders of permits from the State Commissioner of Health. And then

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<sup>2</sup> Some recommendations on the subject of marking are contained in Appendix C.



there has been the California custom of denying Americans returning from abroad the right to bring in a pint of liquor unless they could produce a special state license.

### *Customs Administration*

The Genoa Conference of 1922 made important recommendations concerning customs administration:

1. The removal of obstacles created by instability in administrative and legal measures.
2. The publication of tariffs and efforts to render nomenclature of tariffs as comparable as possible, excessive specialization to be avoided.
3. A concerted effort to eliminate those tariff changes made frequently "for the purpose of economic warfare."
4. Prohibitions against imports to be suppressed.

Uniformity of classification is desirable, and much remains to be done in this field in the Americas, but there is even greater need for the simplification and stabilization of regulations concerning invoicing, entry requirements, bonds and related papers, shipping requirements, marking country of origin, and valuation. Documentation should be simplified, duplication eliminated, and forms consolidated.

### *Appraisement*

The United States has a very complicated system of valuation which endeavors to establish the same exaction of duty on identical or similar merchandise, regardless of the price paid by the importer. In other words, a buyer who secures goods at a lower price by purchasing an unusually large quantity must pay duty on the higher price paid by a purchaser of the usual wholesale quantity. This system has considerable merit from the standpoint of equity because it embodies the principle of just tax equalization. Its complexity, however, constitutes a real disadvantage. In actual practice, appraised values of merchandise in the United States are in perhaps 95 per cent of the cases identical with invoice prices.

A possible uniform basis of appraisement would be the purchase price of the merchandise, packed, ready for export shipment, at the place of sale, provided that such price is freely offered to all purchasers of the same quantity; if not so offered, then the freely offered price of commercially comparable merchandise, in about the same quantity.

In simplest terms, American selling price means the value of an American product that is similar to an imported one. For example, a coal tar dye entering American commerce from abroad may be similar in chemical composition, strength, shade, and use to one produced

in this country. The importer would be assessed duty not on the price he paid for the dye but on the value of the similar dye made in the United States. The American valuation proposals are in fact protectionist dodges advanced for the purpose of excluding imports and would be next to impossible to administer strictly. If American selling price is to be retained as a basis of appraisement, it should be amended to insure that domestic manufacturers and producers could furnish ample quantities of competitive merchandise.

Any imported article may by presidential proclamation be subjected to an increase of 50 per cent in rate of duty or to change of basis of appraisement to American selling price if the Tariff Commission finds such action necessary to equalize foreign and domestic costs of production.<sup>3</sup> This executive power has been used with discretion. Sometimes domestic processors find it difficult to obtain sufficient quantities at home of merchandise made subject to American valuation. To meet this situation, Mr. L. J. Robinson suggested at the time of the 1929 tariff readjustment hearings that the following clause be added to the definition of American selling price: "and in sufficient quantities on reasonable terms of delivery to satisfy domestic requirements." Parke, Davis, and Co., opposed the use of American valuation, alleging that "Permitting the use of the American valuation opens the door to a manipulation of prices, whereby duties may be increased to an unwarranted extent." It is only because these arbitrary powers have so far been used with discretion that consumers have been protected from inflated prices.

A major flaw in appraisement practices in many countries is an overzealous concern about protecting the revenue, a concern that delays the process of valuation. As appraisements drag out, storage charges accumulate, deterioration sets in, and seasonal goods miss markets. The entire trading community is penalized because of the fear, usually groundless, that fly-by-night importers might endanger the revenue.

### *Changes in Rates and Regulations*

Even more upsetting than tariff and nontariff controls are the frequent changes in tariffs and regulations. Changes that take place without public promulgation have been and continue to be vexing to Americans exporting to certain countries. Changes in American customs requirements may be frequent but they are made known to the public in advance, principally through the "Treasury Decisions." The bilateral negotiation of tariff treaties and agreements, while not excluding the

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<sup>3</sup> If foreign and domestic costs of production were equalized, international trade would virtually come to a halt.

adoption of long-period tariffs, in practice militates against simultaneous change. For example, the United States could hardly be expected to exchange rate concessions with thirty trade agreement countries at one and the same time. The price of frequency of change is probably a low one for the achievements that must be chalked to the credit of the bilateral technique employed to execute the Hull program. Even so, the negotiating countries might well ponder the merit of making fewer and more thorough-going agreements. Caution was necessary in the past but now there is little reason to take two bites of a cherry.

### *Antidumping Complexities*

The Antidumping Act of 1921, still in effect, is a carefully drafted and important piece of legislation. Nonetheless it is extremely difficult to understand, and it is susceptible to many varieties of abuses and uses.<sup>4</sup>

Let us consider the strange case of cotton goods from Japan. Although many appraising officers did not suspect dumping and dumping was actually found in few if any cases, the importers were subjected to inconvenience and delay and the expense of putting up bonds to cover possible antidumping duties. The withholding of appraisement can be a political weapon susceptible to use by individuals as well as by a national government. An appraising officer at Laredo may have a brother who is a shoe manufacturer in St. Louis and he may suspect that the exporter's sales price of Mexican footwear is less than the cost of production in Mexico. As a result of this suspicion, the appraisement of Mexican footwear would be withheld, not just at Laredo but at every port of entry in the United States, the importers meanwhile being compelled to go to the work and expense of furnishing bonds to cover estimated additional duties. Many would dodge future headaches by getting out of the importing business. It may be inquired, cannot such an issue be settled readily one way or the other? The answer is in the negative. The investigation might continue for several years and lead to litigation with consequent additional cost to the importer regardless of the final decision.

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<sup>4</sup> Sec. 201 (b) of the Act provides that "Whenever, in the case of any imported merchandise of a class or kind as to which the Secretary has not so made public a finding, the appraiser or person acting as appraiser has reason to believe or suspect, from the invoice or other papers or from information presented to him, that the purchase price is less, or that the exporter's sales price is less or likely to be less, than the foreign market value (or, in the absence of such value, than the cost of production) he shall forthwith, under regulations prescribed by the Secretary, notify the Secretary of such fact and withhold his appraisement report to the collector as to such merchandise until the further order of the Secretary, or until the Secretary has made public a finding as provided in subdivision (a) in regard to such merchandise."



"Exporter's sales price" may not sound very formidable but finding it in a given case may prove highly complicated. It is defined below.<sup>5</sup>

This definition alone is enough to tax the mentality of the proverbial Philadelphia lawyer, but one rule leads to another and definitions are piled on definitions. The layman would presume the exporter to be the seller but a new meaning is given which adds to the complexities.<sup>6</sup>

If there is no foreign market value, the cost of production must be ascertained and this is not as easy as it sounds. It is defined anew.<sup>7</sup>

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<sup>5</sup> Sec. 204. "That for the purposes of this title the exporter's sales price of imported merchandise shall be the price at which such merchandise is sold or agreed to be sold in the United States, before or after the time of importation, by or for the account of the exporter, plus, when not included in such price, the cost of all containers and coverings and all other costs, charges and expenses incident to placing the merchandise in condition, packed ready for shipment to the United States, less (1) the amount, if any, included in such price, attributable to any additional costs, charges, and expenses, and United States import duties, incident to bringing the merchandise from the place of shipment in the country of exportation to the place of delivery in the United States, (2) the amount of the commissions, if any, for selling in the United States the particular merchandise under consideration, (3) an amount equal to the expenses, if any, generally incurred by or for the account of the exporter in the United States in selling identical or substantially identical merchandise, and (4) the amount of any export tax imposed by the country of exportation on the exportation of the merchandise to the United States; and plus the amount of any import duties imposed by the country of exportation which have been rebated, or which have not been collected, by reason of the exportation of the merchandise to the United States; and plus the amount of any taxes imposed in the country of exportation upon the manufacturer, producer, or seller in respect to the manufacture, production, or sale of the merchandise which have been rebated, or which have not been collected, by reason of the exportation of the merchandise to the United States."

<sup>6</sup> Sec. 207. "That for the purposes of this title the exporter of imported merchandise shall be the person by whom or for whose account the merchandise is imported into the United States: (1) If such person is the agent or principal of the exporter, manufacturer, or producer; or (2) If such person owns or controls, directly or indirectly, through stock ownership or control or otherwise, any interest in the business of the exporter, manufacturer, or producer; or (3) If the exporter, manufacturer, or producer owns or controls, directly or indirectly, through stock ownership or control or otherwise, any interest in any business conducted by such person; or (4) If such person or persons, jointly or severally, directly or indirectly, through stock ownership or control or otherwise, own or control in the aggregate 20 per cent or more of the voting power or control in the business carried on by the person by whom or for whose account the merchandise is imported into the United States, and also 20 per centum or more of such power or control in the business of the exporter, manufacturer, or producer."

<sup>7</sup> Sec. 206. "That for the purposes of this title the cost of production of imported merchandise shall be the sum of (1) The cost of materials of, and of fabrication, manipulation, or other process employed in manufacturing or producing, identical or substantially identical merchandise, at a time preceding the date of shipment of the particular merchandise under consideration which would ordinarily permit the manufacture or production of the particular merchandise under consideration in the usual course of business; (2) The usual general expenses (not less than 10 per centum of such cost) in the case of identical or substantially identical merchandise; (3) The cost of all containers and coverings, and all other costs, charges, and expenses inci-

Even if a person can understand the terms used, getting at the facts may prove extremely difficult. How can anyone determine the usual general expenses of Indians working in their pueblos and keeping no records? Unscrambling wages, commissions, and profits is also far from easy. The inspection of books of private traders in other countries is a unique American practice to which foreign governments strenuously object and with good reason.

The propriety of protecting a nation's industries against dumping and other forms of unfair competition is not open to challenge but the cumbersome governmental phraseology now in use presents a most formidable obstacle to imports and assuredly calls for drastic revision.

### *International Economic Cooperation*

If proposals for the liberalization of trade are so applied as to appeal to short-run national interests, adoption will become a relatively simple matter. Coercion, if necessary at all, must be applied with extreme caution for a recalcitrant nation operating outside an international system can wreak serious depredations against the trade members in good standing.

A House Committee proposes the calling of an international economic conference:<sup>8</sup>

"As a means of relaxing restrictions upon trade throughout the world, the committee believes that an international conference should be called as soon as practicable to establish a general policy of reducing barriers. . . . The conference should consider not only reduction of tariffs, but also such trade controls as import quotas, export subsidies, exchange controls, and other forms of State interference with the movement of goods between countries."

### *Cartels*

The proposals for the elimination of restrictive cartel agreements recently put forward by the House Special Committee on Postwar Economic Policy and Planning merit serious study:<sup>9</sup>

"In order to eliminate private trade restrictions, the committee recommends the following measures:

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dent to placing the particular merchandise under consideration in condition, packed ready for shipment to the United States; and (4) An addition for profit (not less than 8 per centum of the sum of the amounts found under paragraphs (1) and (2) equal to the profit which is ordinarily added, in the case of merchandise of the same general character as the particular merchandise under consideration, by manufacturers or producers in the country of manufacture or production who are engaged in the same general trade as the manufacturer or producer of the particular merchandise under consideration."

<sup>8</sup> *Op cit.*, p. 3.

<sup>9</sup> Sixth Report of the House Special Committee on Postwar Economic Policy and Planning, p. 43.

First, an attempt should be made to secure an international convention outlawing certain practices altogether. The practices to be forbidden should include private agreements to fix prices, divide markets, establish export quotas, limit production, limit new investment, or otherwise reduce competition in international markets.

"Second, as a further means of enforcement, an international organization should be established for the purpose of registering all private international agreements. Some private agreements will, of course, be made for nonrestrictive purposes. These include, among others, agreements for the dissemination of technical and market information, for standardization of marketing procedures, for establishing quality standards, interchangeable parts, etc. . . . Many of them serve useful purposes and make a genuine contribution to industrial and marketing efficiency. It should be the function of the international organization to scrutinize all private agreements, and to determine whether any of them involves the restrictive features outlawed by international convention. . . .

"The international convention must provide that methods other than private agreements—including patent licensing—cannot be used to do anything which it is unlawful to do by agreement."

In this connection, it is important to stress the need for placing the regulation of cartel agreements on an international basis. Action by our government to curb the participation of American business men in such arrangements simply penalizes our citizens without rectifying the system. The prevention of monopoly in the field of international trade is, of course, directly in the interest of an expansion of both imports and exports. An international convention on cartels would presuppose a world-wide policy of freer trade.<sup>10</sup>

### *Foreign Trade Zones*

On the domestic front, we can increase the number of free trade zones to include the Pacific Coast and Gulf areas. The Foreign Trade Zones Act of 1934 provides that foreign and domestic merchandise may, without being subjected to payment of duty or to numerous inspections pre-requisite to entry, be brought into a zone for storage, repacking, assembling, bottling, cleaning, mixing, sorting, segregating, distributing or manipulating prior to exportation or entry. Manufacturing and exhibition of goods are not permitted. It might be advisable to amend the Act to allow display of merchandise.<sup>11</sup>

### *Commercial Information*

A special House Committee has recommended that a central trade

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<sup>10</sup> Governments should refrain from approving or encouraging those international commodity agreements which are calculated to benefit inefficient, high-cost producers.

<sup>11</sup> Congressman Celler's proposal of a permanent trade fair for display of merchandise merits attention and action.



information agency be established to pool data from the Departments of State, Treasury, and Commerce, and from the Tariff Commission and to make it available in lucid form for business men. Undoubtedly, the International Chamber of Commerce and its national sections will perform many functions for the benefit of world traders including the circulation of reliable and up-to-date information. It is proposed that the United Nations Economic and Social Council maintain a research division charged with the gathering of statistical and other data respecting customs classification and appraisement, volume and composition of trade, employment in agriculture and industry, terms of trade, conditions of competition, wages, hours, and conditions of labor, international transit, international investment, and other topics of interest to participating nations. An important section of this division would be an International Commercial Information Office whose duties would include receiving and disseminating accurate, recent information on customs laws and regulations, publication of tariffs, etc.<sup>12</sup> The division could well be embodied in the proposed International Trade Organization.

## CHAPTER VIII

### TRADE EXPANSION

We must get away from a static conception of production and consumption, the idea that there are only so many jobs to go around. If we buy an article from abroad, it does not mean that we must necessarily buy that much less at home. It should mean a contribution toward our material well-being. It can hardly be over-emphasized that imports are receipts. The solution of our trade problem involves multiplication, not division.

In this paper, trade is not regarded as an end in itself but rather as a means to attain social betterment through a fuller and more efficient exploitation of the world's resources.

Both friends and foes of tariffs are prone to assume that the reduction of trade barriers will automatically ensure a greatly augmented flow of commodities. Those who have studied the matter very exhaustively are inclined to believe that if the United States were to abolish every import duty the expansion in imports would amount to about a billion dollars annually with income at the 1937 level; few would place the figure much higher. Protectionists, on the contrary, campaign on the hypothesis that in the absence of tariffs the flood of imports would run

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<sup>12</sup>See Appendix A for recommendations on commercial arbitration.

into many billions of dollars a year and engulf practically all domestic industry. It would be hard to find a single economist to support such a view.

Irrespective of tariff level or of national income, many articles have a comparatively inelastic demand and are not very sensitive to changes in price. Luxury goods, imports for further fabrication, and most other articles are influenced primarily by the level of industrial activity. Rates of duty may often, however, be so high as to exclude goods. For example, the rate of 15 cents a pound on avocados is usually prohibitively high.

A recent Tariff Commission report specifies various commodities having an inelastic demand; in these cases, duty reductions would not make much difference. A tremendous expansion of the American construction industry might greatly increase the demand for glass but a change in the rate of duty would not have much effect. "Consumption in the United States of sheet glass in the postwar long term period would probably not be materially affected by a 50 per cent decrease or a 50 per cent increase in tariff rates." The quantity of Havana wrapper consumed depends mainly on cigar consumption and not on rate of duty. "It is not likely that changes in the rate of duty by as much as 50 per cent would alter materially the total consumption of cigar wrapper." In both cases cited, demand rests on conditions in an industry as a whole.

### *Why Expand Imports?*

The case for increasing imports of every description has been summed up as follows by the National Planning Association:<sup>1</sup>

"It is in the national interest to expand imports of foreign goods and services, thereby increasing our own export opportunities and, through the effect of a higher American trade level, enabling multilateral trade expansion as an essential contribution to world economic prosperity and political stability. In addition to the purposes of raising the domestic employment level, imports should be expanded in order to:

1. Enable domestic production to be devoted to lines in which the United States enjoys comparative economic advantage, thereby: (a) increasing living standards through greater consumption of goods and services which can be more economically produced abroad; (b) facilitating the transfer of production factors out of low-wage industries and marginal agriculture, both of which depend upon substandard wages and working conditions; and, finally, (c) enabling foreign investment through provision of an expanding volume of dollar exchange required for service and amortization payments.
2. Enable conservation of our natural resources through importation of a higher

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<sup>1</sup> National Planning Association, *op. cit.*, p. 74.

proportion of our industrial raw materials requirements.

3. Establish a strategic reserve—a reserve of important and critical raw materials for reasons of military security.”

No amount of governmental regulation can serve as a desirable substitute for ordinary business discretion. International traders must avoid flooding particular markets with this or that commodity to the injury of domestic producers. An isolated, single instance can provoke exaggerated and long-run protectionism. Perhaps such situations can be prevented by appropriate provisions in an international code of fair competition, and through general consultation and publicity.

### *The Forgotten Consumer*

The evils and abuses of tariffs are traceable to the precedence accorded special interests over the common weal. Philip Wright analyzes the situation as follows:<sup>2</sup>

“If the human cells that in the aggregate constitute a nation were dominated by a single consciousness, acting for the welfare of the whole and of each separate cell, there would probably be no protective tariff. Or if the idea of protection did occur it would be in the opposite direction. Each nation, motivated by self-interest, would bargain to bring in as many goods as it could for the goods which it shipped out. Since, however, such is not the case, since the trade is conducted by individuals through a money medium, and since individuals by excluding foreign goods may obtain a partial monopoly of their own goods and thereby reap a monopoly price at the expense of their fellow countrymen, tariff problems do in fact arise.”

Among the duties that should be reconsidered are those that exclude all competition or are unduly detrimental and prejudicial to the interests of consumers. Tapioca was not made subject to duty despite the representations of the corn growers. There seems to be no good reason to penalize with a tariff duty those who prefer tapioca to corn-starch pudding. During the tariff readjustment hearings, the W. T. Rawleigh Co. testified: “Our calculations indicate that for every dollar of increase or decrease of tariff duty on oil of lemon there would be an increase or saving, respectively, to the consumer of approximately \$4.88. To impose this heavy burden upon the consumer for the benefit of an industry with a total employment of only 600 employees which has had tariff protection for nearly 15 years, we respectfully submit, is most unjust and unreasonable.”

The methods of calculation used are not known and the results may be open to question but there can be no doubt that duty charges tend to pyramid. The company in point was concerned with the welfare of its

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<sup>2</sup> Philip G. Wright, *Trade and Trade Barriers in the Pacific*, p. 453.



rural customers: "The consumer, and especially the agricultural consumer, has been forced to buy upon an enormously protected market, and to sell on a deflated one. Nothing can bring about more prompt and effective relief to the farmer and those affiliated or connected with him, than to reduce the price of the article that he must buy."

It is recommended that the abnormally high duties on certain lines of woolen goods be investigated for possible readjustment in the national interest. During the tariff hearings, one case came to light which it was in effect proposed that higher duties be placed on violin chin rests, that the comfort of the violinists of America should be secondary to the economic interest of one family!<sup>3</sup>

Tariffs that jeopardize public health and safety should be abolished. During the 1929 hearings, the Ford Motor Co. opposed increased duties on pyroxylin, used in making laminated safety glass. At the same time, the American Medical Association and the American Hospital Association opposed increased duties on surgical instruments. In the same category are imported alloys used in plane construction for added safety and also the pharmaceuticals discussed in an earlier section.

Duties on commodities not produced in the United States are especially difficult to justify. Vanilla beans are not grown in America but they are protected. Why should we protect something that does not exist? The Rawleigh Company reported: "Our calculations show that for every dollar of increase or decrease of tariff duty on vanillin and coumarin there will be a consequent increase of cost or saving respectively to the consumer of \$4.38." Pepper, cloves, cinnamon, allspice, sage, nutmeg and ginger are not grown commercially in the United States with the exception of a small quantity of red pepper and sage; duties have not fostered domestic production. Quoting the Rawleigh Company again, "The sole and only effect of this tariff protection has been to enable the American manufacturers to charge unreasonable prices. Our calculations indicate that for every dollar of increase or decrease on these items there would be an increase or saving, respectively, to the consumer of \$2.51."

#### *Not Made in the U. S. A.*

Duties on noncompetitive products could be largely removed. Hand-embroidered linen handkerchiefs are not commercially produced in the United States but they are an important Chinese export. Articles in-

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<sup>3</sup> See E. E. Schattschneider, *Politics, Pressures, and the Tariff*, p. 22: "Considering being in this line (purely a specialty of which the writer's father was inventor) the past 42 years being the sole source of income to a family we trust that something will be done, providing of course we give you full and convincing proof of our claim."

volving a great deal of hand labor are usually not suited to the American economy. An Iranian family may spend an entire year weaving a gorgeous Persian rug. American families have neither the skill nor the inclination to engage in such pursuits.

There are many other commodities which by reason of special conditions of labor, soil, climate, or other element of production are more economically produced abroad. In this group are special tobaccos, high-grade ores, etc. Others include Mexican earthenware, trinkets, art goods, Madeira embroideries, and the many handmade articles appealing on the basis of individuality. During the last few years, the American demand for phonograph records has soared. Records require imported shellac, copal gums, and fossil resins in their manufacture. Shellac comes from the "lac bug" or *laccifer lacca*. These bugs are not raised in America. Synthetic substitutes are probably prohibitively expensive, requiring costly reproducing equipment, and not very satisfactory as to quality of recording or life of record. Montan wax is valued in making first recordings because of its satiny smooth surface, perfect balance between hardness and softness, and its acid-resistant characteristic.

Some of the leathers imported for the making of gloves and mittens are very different from the domestic materials. The skin of short-haired sheep, found only in foreign countries, is better for gloves because of its light weight, strong texture, and tight grain.<sup>4</sup> Capeskins come from South African sheep. Cabretta comes from a goat-strain, cross-bred sheep raised chiefly in Brazil. Pigskin is obtained not from pigs but from the wild boar, pecarry, and carpincho. Buckskin comes mostly from Brazil, China, and Nicaragua.

Another article not commercially produced in the United States is licorice root. This shrub grows wild in Turkey and other parts of Asia Minor. It is used in confections, tobacco, wallboard, and firefighting fluids. The duty of  $\frac{1}{2}$  cent per pound has been equivalent to from 13 to 21 per cent.

There is no reason to place high duties on luxury goods because such barriers are necessarily non-protective. Fine glassware from Sweden and Czechoslovakia will doubtless find a ready market in the United States during the next few years. Handmade Christmas tree ornaments have greater variety of shapes and colors than the machine products. The imports of these latter articles might amount to a half million dollars annually after the war. It is estimated that a fifty per cent reduction in

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<sup>4</sup> The processing of these skins into special leathers, e.g., French chamois and English doeskin sometimes requires nine months and it is a highly developed art not practised in America.

duty on handmade glassware would probably increase our imports by two-thirds. Among the articles requiring much cheap labor are handmade perfume bottles which might be imported from Czechoslovakia to the extent of a million dollars annually. British leather goods, Spode dinnerware, silk brocades, and French perfumes are in a class by themselves. Irish and Czech linens and cotton table damasks are not genuinely competitive. According to the *Summary of Tariff Information*, "Competition from abroad in cotton table damasks is small and confined mainly to special high-grade fabrics which are imported on the basis of quality rather than price." Other dutiable items purchased at a premium include paints and enamels, English earthenware, Sheffield silverplate, bone chinaware, decorated bottle caps, Swedish steel wire, English leather book bindings, leaf tobacco for cigar wrappers, cigarette leaf tobacco, fancy packaged smoking tobacco from England, fish from the Great Lakes, prepared mustard, rum, brandy, liqueurs, vermouth, still wines, champagne, two-ply yarns mulespun from Egyptian cotton, crochet and darning cotton, high thread count cotton fabrics, linen handkerchiefs, woolen fabrics and wearing apparel, silk fabric valued over \$5.50 a pound, silk velvets, ribbons, silk handkerchiefs, horn buttons, bobbinet nets, Swiss embroideries, corsets and brassieres composed in part of elastic fabric, patent leather, suede leather, chamois, English boots and shoes, and harness valued at over \$70 a set.

Increased imports of many of the foregoing items would serve in some measure as a brake against inflation in the immediate future, provided other nations did not use the dollars to buy American goods in short supply. The chief gain would be higher standards of living in the United States and abroad.

### *Border Trade*

Greater encouragement should be given to our border trade with Canada and Mexico. Some of our cities and rural areas are economically closer to producing sections of Canada than to those of this country. Canadian limestone, dutiable at  $2\frac{1}{2}$  cents per pound, serves local road-building and other requirements of American towns near the Canadian border. Lime is also used in the manufacture of sulphate pulp. American paper manufacturers value the Canadian product because it is highly caustic and free from impurities, does not have to be transported long and costly distances to the detriment of quality, and can be delivered fresh and at regular and frequent intervals. American border needs are also served by imports of Portland cement, crude feldspar, milk products, bran and other wheat by-products (inadequate supply of locally grown



feeds), dried beet pulp (New England States and Florida are distant from domestic production areas), and Christmas trees. Domestic wall-board factories have for a number of years relied upon Nova Scotia for their supply of gypsum.

### *How Tariffs are Made*

Why do people make an effort to voice their views at tariff hearings? The reasons are many and varied, running the whole gamut of motives and feelings.

Sometimes, the label of patriotism provides a convenient device for covering up otherwise indefensible situations. We are indebted to E. E. Schattschneider for his careful and penetrating analysis of the political soil in which protectionism thrives. He declares that "Nationalism makes men willing to bear the burdens imposed by the tariff because it makes private interests seem public."<sup>5</sup> He adds that "The protective tariff is well established because large areas of adverse interests are too inert and sluggish to find political expression while an overwhelming proportion of the active interests have been given a stake in maintaining the system."<sup>6</sup>

When an individual is in distress, he will seek something on which to fasten blame. Distance breeds misunderstanding and the foreigner is a natural scapegoat. Among the firm opponents of the Trade Agreements Act are the watchmakers who blame this program for unfavorable changes in the industry that took place while the high rates of the Act of 1930 were still in effect. Little do they realize that their manual skills have been losing out in competition with refined mechanical methods of producing good watches and that this same advance in technique of fabrication proved too much for the feared foreigners in hundreds of Swiss cottages.

Another motivating force is the fear of what might happen. A rumor that a new process will give a competitive advantage to a plant in another country is often enough to start agitation for more protection.

Tariff agitation has long been a lucrative source of income for talented lobbyists who know little about the effects of tariffs and care less. These professional propagandists find it easy and profitable to arouse the suspicion and anxiety of some farmers and manufacturers who will go to great lengths to keep things as they are. The willingness to pay for such services usually springs from an unwarranted faith in the tariff as a panacea and the belief—usually mistaken—that agitation pays dividends.

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<sup>5</sup> E. E. Schattschneider, *op. cit.*, p. 161.

<sup>6</sup> *Ibid.*, p. 163.

The benefits of the tariff to special interests are much more immediate and apparent than are the injurious effects on real wages, employment in the export industries, volume of shipping. etc. The closer to home a rate hits, the greater is the likelihood that a person will testify at a tariff hearing or submit a brief.

Importers are often rather diffident about putting in an appearance on the ground that their self-interest is obvious. What they should realize is that their desire to earn a living in open competition is more meritorious than the intention of the inefficient producer to stifle competition and gouge the public.

Among the stalwart campaigners for protection are the wool-growers. But the higher the tariff on wool, the greater will be the incentive to perfect cheaper substitute materials. A tariff of twelve cents a pound can keep out most of the foreign butter but it cannot prevent consumers from using domestic oleomargarine.

Sometimes, one segment of an industry tries to put pressure on the rest by using the tariff as an offensive weapon. For example, the "unmerged" part of an industry may not have access to home-produced materials and thus be dependent on imports. In order to force the independents to fall in line, the integrated sector of the industry may press for higher duties on the raw materials required. In the oil industry, the reverse has been true with wholly American companies attacking partly-internationalized competitors. Another angle is the effort to create a monopoly in the domestic production of essential materials and then shut out foreign competition. Activity on behalf of higher tariffs on materials for further fabrication is further stimulated by scarcity of domestic supply, great price differentials between domestic and imported materials, and the superiority of the foreign products.

Those directly affected by duties often mobilize support among secondary interests and subsidiaries. Producers of substitute domestic materials strive to coerce established industries to buy from them by using the tariff to make imports prohibitively expensive. It may be questioned whether it is ever justifiable to levy duties against natural products for the benefit of synthetic substitutes. In any case the inefficient ersatz purveyors are increasingly active in seeking special privileges via the tariff.

Activity tends to be in inverse ratio to the number of competitors. If foreign competition can be kept out, the consumer may be placed at the mercy of a handful of home producers who can be depended upon to charge as much as the traffic will bear.

Tariff lobbying tends to become habitual; with some families it is tra-

ditional. It is sometimes done in a rather lackadaisical fashion as a matter of custom or to cater to the prejudices of active and vocal minorities in organizations and industries.

Technical developments, sectional interests, rise of new industries, changes in price levels, shifts in political power, expiry of patents and copyrights, changes in styles, and new foreign competition bring pressure for the heightening of trade barriers.<sup>7</sup>

The exigencies of the war resulted in the growth of many lines of production regardless of cost factors. Today these new industries, aware of their inability to compete on equal terms in the world market, are frantically trying to bar more efficiently produced goods from other countries. This statement applies not to America alone but to virtually every nation able to shape its own foreign trade policy.

An example of American efficiency is the tall can (14½ oz.) of evaporated milk which costs about sixty per cent of the price of a quart of fresh milk. In certain Latin American countries, the price of a can of milk is five or six times that of a quart of fresh milk. Is it any wonder that newly established Latin American industries clamor for protection against the efficient mass production of their competitors in the United States?

Joseph R. Grundy, a tariff lobbyist of long standing, has described the political practice of his family with surprising candor. He hailed the McKinley Tariff as the best in our history and stated that it was written by a small group of interested men in a hotel room. Now that all legislation is subjected to public scrutiny, these methods have had to be revised. Grundy describes the winning technique as follows: "In Congress, from my experience, the fellow that makes the most noise, and the fellow that makes the most demands, that keeps his problem in front of them all the time, he gets service. If he doesn't; if he depends upon somebody else to do it for him, he is going to get what we all get when we don't go after the thing the way we ought to—nothing."<sup>8</sup>

Senator Tobey's illuminating and forthright remarks about lobbying activities against the Reciprocal Trade Agreements program this year are appended.<sup>9</sup>

Happily, public interest organizations are displaying a growing interest in international economic questions. The most respected labor and farm organizations, industrial associations, trading groups, women's

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<sup>7</sup> Although the paper shortage is fresh in the public mind, the domestic wood pulp industry is boldly condemning the policy of reciprocal reduction of trade barriers embodied in the Trade Agreements Act.

<sup>8</sup> E. E. Schattschneider, *op. cit.*, p. 219.

<sup>9</sup> Appendix D.



organizations, professional societies, and religious associations have repeatedly and enthusiastically endorsed the Reciprocal Trade Agreements Act. Such support is primarily a reflection of their intense interest in international affairs. It is a wholesome thing for these disinterested bodies to express themselves on issues involving the general welfare.

Economic nationalism is a tenacious and potent enemy of world order. To combat this foe, world citizens must become more active. The practice of blaming everything on the lawmakers is as unrealistic as it is unfair. To a greater degree than is generally acknowledged, the members of Congress are astute, intelligent, hard-working individuals with the public welfare at heart. They strive earnestly to strike a happy medium in carrying out the conflicting and often self-contradictory wishes of their constituents. To secure better legislation, the best informed citizens should be the most vocal in their own communities in demanding that measures of dubious sectional short-run benefit give way to policies better calculated to advance the interests of a free, democratic world civilization with material abundance for all of Adam's children.

## APPENDIX A

### COMMERCIAL ARBITRATION

In July, 1922, a Committee of Experts summoned by the Economic Committee of the League Council, made the following recommendations for the removal of obstacles impairing the general validity of arbitration clauses in commercial contracts:

"If two parties of different nationalities agree to refer disputes that may arise between them in a named country, an action brought by either party in any country other than that agreed upon as the place for arbitration ought to be stayed by the court of the country in which it is brought, provided that:

(a) the court is satisfied that the other party is and has been ready and willing to do all things necessary to carry out the arbitration agreed upon; and

(b) that the same court is satisfied, either by a certificate of the court of the country in which it has been agreed to arbitrate or by diplomatic methods, that the law of the latter country recognizes and will make effective the arbitration agreement."

## APPENDIX B

### CUSTOMS FORMALITIES CHARACTERISTICS AND ADVANTAGES OF THE UNIFIED CUSTOMS NOMENCLATURE

The draft Customs Nomenclature proposed by the Sub-Committee of Experts of the League of Nations classifies goods under 86 chapters, grouped in 21 sections. As regards the distribution of goods within the chapters, *origin, processes of manufacture, degree of workmanship, and economic importance* are taken into account either separately or together. In some cases, the experts have taken into consideration the *nature of the packing* (for instance, in the sub-division for preserved vegetables, meat, fish, etc.) and, in exceptional cases, *destination*: thus the chapter relating to "fertilisers" includes products which may be put to other uses, but are principally or normally used as fertilisers.

The draft nomenclature contains main or basic items, secondary items and sometimes tertiary or quaternary items.

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League of Nations, Economic Committee (Official No. C.427 M.177.1931.11.B). Report to the Council on the Work of the Thirty-fifth Session. Appendix 11, Report by the President of the Sub-Committee of Experts for the Unification of Customs Nomenclature, p. 14. (Geneva, June 24th, 1931.)

In the opinion of the experts, the principal items should be *compulsory*—in other words, the countries which adopt the standard nomenclature *would not be allowed to abolish any of these headings* (about 1,000 in number), which, as a rule, are sufficiently comprehensive to include a whole group of well-defined articles which play an important part in international trade.

The sub-items, on the other hand, would not, in principle, be compulsory, but any country which desired to sub-divide the basic items would be required to accept the sub-divisions provided for in the draft, though it would be at liberty to reduce their number of grouping two or more together, if it considered it expedient to do so.

Countries might also establish fresh distinctions in addition to those provided for in the draft.

By this means, all tariffs would have a *minimum* of elaboration, thus eliminating the danger of excessive simplicity which, in the circumstances, is as much a defect and as dangerous as over-detailed discrimination. Greater discrimination would always be possible, but it would not be allowed to affect the uniformity of the standard nomenclature, as it would have to be carried out within the framework constructed by the experts. Moreover, the experts fixed the main rules governing discrimination between the more important headings by explanatory notes relating to those headings.

The advantages of adopting the experts' system are evident.

*An exporter who desires to ascertain* what Customs regime is applicable to any particular article upon importation into a given country may, if his own country and the country of importation have adopted the Customs nomenclature, procure the information which he needs with the greatest ease and rapidity. Indeed, the place occupied by the article in question in the tariff of the importing country will be exactly the same as the place it occupies in the tariff of the exporting country, the article in question being dealt with under the same head in both tariffs. There will also be complete correspondence between the signs (arabic figures, letters, roman numerals, etc.) used to distinguish the particular item. In most cases, therefore, it will be possible for the exporter, even if ignorant of the language in which the tariff of the importing country is drafted, to ascertain the duty to which the article is liable, simply by looking at both tariffs; his own will show him exactly where to find the duty for which he is looking in the other tariff.

Similarly previous thorough acquaintance with the exact contents of each tariff heading acquired by perusal of the explanatory notes inserted by the experts *will appreciably simplify commercial negotiations* and



eliminate all possibility of misunderstanding or ambiguity in this respect. Furthermore, a comparison of the Customs tariffs—the importance of which both from the point of view of the politician and from that of the student or business man we need hardly emphasize here—will be effected without those difficulties which at present render the results of enquiries of this kind so problematical.

## APPENDIX C

### MARKING COUNTRY OF ORIGIN

The Sub-Committee of Experts of the League of Nations Economic Committee in 1931 directed attention to the subject of marks of origin. Certain experts suggested<sup>1</sup> that the words “made in” or “imported from” could be deleted and that three or four letters might be used to indicate the country of production, e.g. ANGL would signify Great Britain, CZSL would stand for Czechoslovakia, USAM—United States of America, USAF—Union of South Africa, USSR—Union of Soviet Socialist Republics, etc. It is conceivable that the letters JAP (Japan) and GERM (Germany) would constitute as great handicaps to sales of goods from those lands as would obtain if the names of the countries were spelled out in full and preceded by the words “Made in.” The theory behind American marking regulations is that the description should be sufficiently detailed as to convey to the ordinary American purchaser, knowing only the English language, an accurate idea of the place of origin of the articles he buys, unless such articles were produced in the United States. It must not be forgotten, however, that the name “England” on a piece of chinaware or “Persia” on an oriental rug adds much more to the commercial value of the object than the cost of marking. Marking requirements should be minimal rather than maximal.

The many methods of marking include stamping, stencilling, branding, labeling, tagging, and diesinking. The American rule is that the marking shall be as permanent as the nature of the article will permit (see Sec. 304 of the U.S. Tariff Act of 1930).

The Sub-Committee of Experts lists recognized exceptions to marking requirements:<sup>2</sup>

1. Goods in transit.
2. Goods in bond.
3. Samples and articles without commercial value or of trifling value.
4. The wrappings when the goods themselves are marked and are normally sold unwrapped or the goods themselves when they are normally sold in wrap-

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<sup>1</sup> C. 427. M.177.1931.11.B., p. 18.

<sup>2</sup> C. 427. M.177.1931.11.B., p. 19-20.

pings and the wrappings are already wrapped according to the law. (The United States Customs Administrative Act of 1938 does not require the marking of either immediate or outside containers when the article is of a type that normally lends itself to marking and is legally marked.)

5. *Objets d'art*, valuable or fragile articles.

6. Goods intended for the personal use of the importer, his family, factory or business and not intended for sale.

7. Packings, containers, spools, boards, bottles, labels, etc., and in general all goods imported for the sole purpose of being used as packages, containers, etc., for products of the importing country. (Certain of these exceptions are not allowed by the United States. For instance, if a can of American-produced salmon bears a label which was printed in Japan, the label must so indicate.)

8. Raw material for industrial purposes or for manufacture or finishing in the country of import.

9. Goods bearing national marks.

Other possible exceptions to marking requirements include:

1. Goods of such nature as to indicate to the purchaser their origin. For instance, an importer of a panda could reasonably be expected to know its country of origin.

2. Individual pieces in sets of articles which have no value if broken up.

3. Religious articles.

4. Bulky merchandise usually admitted free of duty, e.g., coffee.

5. Books printed in foreign languages.

The multilateral convention could establish uniformly acceptable marking symbols and indicate categories of exceptions. A uniform penalty for failure to mark the merchandise could be arrived at or an agreement made to the effect that no penalty should apply if the merchandise were properly marked subsequent to importation but prior to sale. Requirements of marking in the country of exportation should be modified to permit marking in bond in the country of importation.

#### APPENDIX D

### REMARKS BY SENATOR CHARLES W. TOBEY OF NEW HAMPSHIRE ON TARIFF LOBBYING

"... I am pleased to know that on this side of the aisle there is a growing number of Senators who will vote for extension of the Reciprocal Trade Agreement Act, and the number is growing larger every day. Let me tell the Senator [Wiley], however, that there are other groups in the United States bitterly fighting this legislation, and their representatives are to be found not very far away from here. In the room to the right

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*Congressional Record* XCI, No. 117: 6147 (June 13, 1945).

of this Chamber sit five fat, sleek lobbyists, with pencils and notebooks, jotting down the names of Senators who are for or against the pending measure, attempting to appraise their attitude, and calling Senators from the Senate Chamber and conferring with them, and conniving how to influence Senators to oppose the extension of the reciprocal tariff agreements and a further reduction of tariffs. That is the lobbying system in action, and that is an evil concomitant of Congress.

"We are here charged with a great responsibility, and it is a tragic thing that as we sit here debating this far-reaching legislation, these lobbyists sit out there and go into a huddle with a Senate leader in an effort to bring Senators under the force of their arguments and influences and quid pro quos which, although we do not see them in here, yet function in the Senate lobby around the corner at this very moment, and have been doing so for several days."

#### APPENDIX E

##### DUTIABLE COMMODITIES IMPORTED FOR FURTHER FABRICATION

<i>Name</i>	<i>Supplier</i>	<i>Domestic Industry</i>	<i>Rate of Duty</i>
			(1940)
Albumen (dried egg)	China	Machinery	27c. lb. (112.1%)
Edible Gelatin, u/4oc. lb.	Belg., Fr.	Machinery, Misc.	23%
Casein	Argentina, Fr.	Wood, Paper	5½c. lb. (108.5%)
Inedible Gelatin	France	Chemical	2½c. lb. +20%
Spermaceti Wax	United Kingdom	Chemical	2½c. lb. (20%)
Sponges	Cuba, B.W.I.	Machinery	16.1%
Wool Grease	Australia, U.K.	Chemical	60.2%
Upper Leather	U.K., Can., Neth.	Leather	14.6%
Olives, Green	Spain, Greece	Food	33.4%
Molasses	Cuba, Barbados	Food	40.7%
Coconuts	Jamaica, Hond.	Food	14.9%
Other Nuts	B.W.I., Brazil	Food	55.1%
Soybean Meal	China, Mexico	Food	3/10c. lb. (22.7%)
Tonka Beans	Ven., Trin., Brz.	Tobacco	12½c. lb. (13.6%)
Sugar	Cuba	Food	56%
Cottonseed Oil	Brazil	Chemical	3c. lb. (84.1%)
Sesame Oil (edible)	China	Chemical	3c. lb. (24.1%)
Eucalyptus Oil	Australia	Chemical	15%
Lemon Oil	Italy	Food	25%
Orange Oil	Fr. Africa	Chemical	25%
Sandalwood Oil	Br. Ind., Aus.	Machinery	12½%
Castor Oil	China, Brazil	Textile, Chemical, Rubber, Ceramic, Machinery	3c. lb. (54.6%)
Coconut Oil	P. I.	Chemical	2c. lb. (37.4%)
Linseed Oil	Argentina	Food, Chemical Machinery	4½c. lb. (38.8%)



<i>Name</i>	<i>Supplier</i>	<i>Domestic Ind.</i>	<i>Rate of Duty</i>
Soybean Oil	China, Japan	Food	3 ½c. lb. (76%)
Flaxseed	Argentina, Urug.	Chemical	65c. bu. (54.4%)
Rice Starch	Belgium	Misc.	1 ½c. lb. (38%)
Quebracho Extract	Argentina, Paraguay	Leather	15%
Tobacco	Neth. Indies	Tobacco	64.9%
Burlap (plain jute)	India, U.K., Belg.	Food, Text., Wood, Rub., Ceramic, Iron, Steel	1c. lb. (11.1%)
Cotton, Long-Fiber	Egypt, France	Text., Rub., Ceramic, Machinery, Misc.	7c. lb. (41%)
Cotton Rags	Japan	Machinery	3c. lb. (31.4%)
Hemp	Italy, Chile	Machinery	13.5%
Vegetable Fiber	Morocco	Machinery, Ceramics	\$22.40 ton (78.4%)
Hat Braids	Italy	Apparel	24.2% average
Carpet Wool	Arg., Uruguay	Textile	72.6% average
Clothing Wool	Arg., So. Africa	Textile, Apparel	86.8% average
Combing Wool	Aus., Arg., So. Af.	Textile	72.7% average
Mohair	Australia, Arg.	Textile	62.5% average
Mahogany Planks	Brazil, Cuba, Peru	Iron, Steel	\$3 M (15%)
Veneer	Canada	Paper	15% average
Clays, Earths	United Kingdom	Text., Iron, Steel, Metals, Machinery	20.3% average
Ground Emery	United Kingdom	Machinery	1c. lb. (14.5%)
Graphite	Mex., Madagascar, Canada	Rub., Iron, Steel, Machinery	18.1% average
Block Marble	Mex., Italy, Arg.	Stone, Machinery	65c. cu. ft. (15.6%)
Unrubbed Marble	Italy	Rubber	31% average
Mica	Can., Br., Br. Ind.	Electrical	32.3% average
Paraffin Wax	Neth., Ind., Burma	Chemical	1c. lb. (23.2%)
Pumice (crude, n/o \$15 ton)	Italy	Machinery	1 / 10c. lb. (38.2%)
Talc	China, So. Africa, Canada	Machinery	29% average
Crude Bauxite	Fr., Surinam	Chemical, Machinery	\$1 ton (14.6%)
Cadmium	Belgium	Iron, Steel, Machinery	7 ½c. lb. (21.7%)
Copper Ore	Chile, Mexico	Machinery	4c. lb. (43.3%)
Ferromanganese	Norway, China	Iron, Steel, Trans.	27.4%
Manganese Ore	USSR, Gold Coast	Chem., Iron, Steel, Machinery, Trans.	39.6%
Tungsten Ore	China, Bolivia	Machinery, Automobiles	50c. lb. (59%)
Mercury	Italy, Spain	Machinery	25c. lb. (18.1%)
Mill Mfrs.	Sweden	Machinery	24% average
Zinc	Canada	Machinery	70% average
Ammonium Chloride	Germany	Rubber	1 ¾c. lb. (63.8%)
Crude Barytes Ore	Cuba	Rubber, Chemical	\$4 ton (51.1%)
Ground Barytes Ore	Italy	Chemical	\$7.50 ton (63.7%)
Carbon	Germany	Machinery	35%

<i>Name</i>	<i>Supplier</i>	<i>Domestic Ind.*</i>	<i>Rate of Duty</i>
Potassium Chlorate	Switz., U.K.	Chemical	1 ½c. lb. (27.4%)
Dyes, Coal-Tar	Switz., Germany	Food, Text., Chemicals, Machinery, Auto.	44.6% average
Flavoring Extracts	U.K., Neth., Belg.	Food	25.5% average
Ichthyol	Switzerland	Chemical	25%
Menthol, Natural	China	Chemical	50c. lb. (24.9%)
Menthol, Synthetic	France	Chemical	50c. lb. (19.7%)
Iron Oxide	Spain, U.K., Can.	Iron, Steel	17.5% average
Ochers	So. Africa, France	Machinery	18.6% average
Umbers	Malta, Gaza	Ceramics, Machinery	12.9% average
Whiting	Belgium	Ceramics, Machinery	50% average
Sodium Silicate	United Kingdom	Machinery	¾c. lb. (18%)
Zinc Chloride	Belgium	Rubber	1.3c. lb. (43.7%)
Zinc Sulphate	Mexico	Rubber	¾c. lb. (47.5%)
Agate Articles	China	Machinery	50%
Sens. Photog. Paper	United Kingdom		
	Belgium	Chemical	22 ½%

# APPENDIX F

Further reductions might be granted on some of the following items:

## *Importations in 1939 exceeded \$1,000,000*

<i>Commodity</i>	<i>Pre-Agreement Rate</i>	<i>Agreement Rate</i>	<i>Amount of Reductions</i>
Woolens o/8oc. not o/\$1.25 lb.	98%	88%	10%
Woolens o/\$1.25 not o/\$2 lb.	88%	73%	17%
Woolens o/\$2 lb.	80%	55%	31%
Cigarette Paper in Bobbins	60%	45%	25%
Cigarette Leaf Tobacco, Unstemmed	71%	61%	14%

## *Importations in 1939 exceeded \$500,000*

<i>Commodity</i>	<i>Pre-Agreement Rate</i>	<i>Agreement Rate</i>	<i>Amount of Reduction</i>
Wool Fabric o/8oc. lb.	120%	101%	16%
Silk Laces Made on Levers Machinery	90%	65%	28%
Rayon Nets and Netting	90%	65%	28%
Worsted Wool Fabrics, o/\$1.25 lb. not o/\$2 lb.	88%	73%	17%
Worsted Wool Fabrics, o/\$2 lb.	80%	55%	31%
Oriental Handmade Rugs	84%	53%	37%
Wool Wearing Apparel not o/\$4 lb.	60%	45%	25%
Woven Silk Fabric o/\$5.50 lb.	55%	45%	18%
Flax Napkins o/130 threads per square inch	40%	25%	38%
Whole Mustard Seeds	37%	32%	12%
Roquefort Cheese	35%	25%	29%



No trade agreement reductions were granted as of 1945 on the following items:

*Importations exceeded \$1,000,000 in 1939*

<i>Commodity</i>	<i>Ad. val. rate or equivalent</i>	<i>Supplier</i>
Perilla Oil	105%	Kwantung
Handkerchiefs, Embroidered, H. R. Hems	97%	China
Cotton Articles, Hand Emb.	90%	China
Other Emb. Textiles	90%	China
Wool, in the grease, finer than 44s, not finer than 56s	87%	Uruguay
Wool, same, finer than 56s	78%	Australia
Refined Cottonseed Oil	86%	Brazil
Certain Women's and Children's Leather Gloves	64%	France
Certain Fabric Gloves and Mittens, \$1.50 or over per dz. prs.	60%	Belgium
Olive Oil—pkd. u/40 lbs.	60%	Italy
pkd. o/40 lbs.	52%	Greece, Italy
Hops	59%	Yugoslavia, Czech.
Tapestries and Jacquard Figured Uphol- stery Cloths of Cotton	55%	Italy
Woven Silk Fabric, o/30" w., u/\$5.50 lb.	55%	Japan
Tuna Fish in Oil	45%	Japan
Certain Still Wines	42%	Spain
Jacq. Figured Cotton Quilts and Bedspreads	40%	Italy
Paraffin and P. Wax	38%	(tax) N. E. Indies
Certain Ferromanganese	36%	Norway
Rugs, n.s.p.f. (cotton)	35%	Belgium
Olives, in brine, green	35%	Spain
Olives, in brine, pitted or stuffed	32%	Spain
Sardines, in oil, o/9c. lb.	30%	Norway, Portugal
Jute Bags or Sacks	29%	Br. India
Paprika, Ground	26%	Hungary
Rayon Filaments not o/30" long	25%	United Kingdom
Barley Malt	19%	Canada, Europe
Jute Burlaps	16%	Br. India
Crab Meat	15%	U.S.S.R.
Straw Hat Braids	15%	China
Calf and Kip Upper Leather	15%	Netherlands
Cashew Nuts	15%	Br. India
Bauxite	14%	Surinam

*Importations exceeding \$500,000 in 1939*

<i>Commodity</i>	<i>Ad. val. rate or equivalent</i>	<i>Supplier</i>
Walnuts, Shelled	112%	China
Wool Hat Bodies	105%	Italy
Wool, in the grease, finer than 44s, not finer than 56s	86%	New Zealand
Certain Glass Articles, \$1 ea. or over	60%	Belgium, Sweden
Dates, Pitted	53%	Iraq, Turkey
Copper, Unrefined	47%	Mexico
Copper Concentrates	44%	Cuba
Certain Wool Carpets not o/4oc. sq. ft.	40%	Belgium
Accordions	40%	Italy
Harmonicas	40%	Germany
Copper, Refined	37%	Chile
Prepared Vegetables	35%	China
Cotton Table Damask, 75c. or more per lb.	30%	United Kingdom, Belgium
Squirrel Skin Plates, etc.	35%	U.S.S.R.
Mica Films and Splittings	25%	Br. India
Medicinal Prep., non-alcoholic	25%	Switzerland

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